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Nation's Business

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Men, Women & Leadership

The success of business owners Jon Levy and Kay Unger shows the benefits of combining the special leadership traits of men and women.

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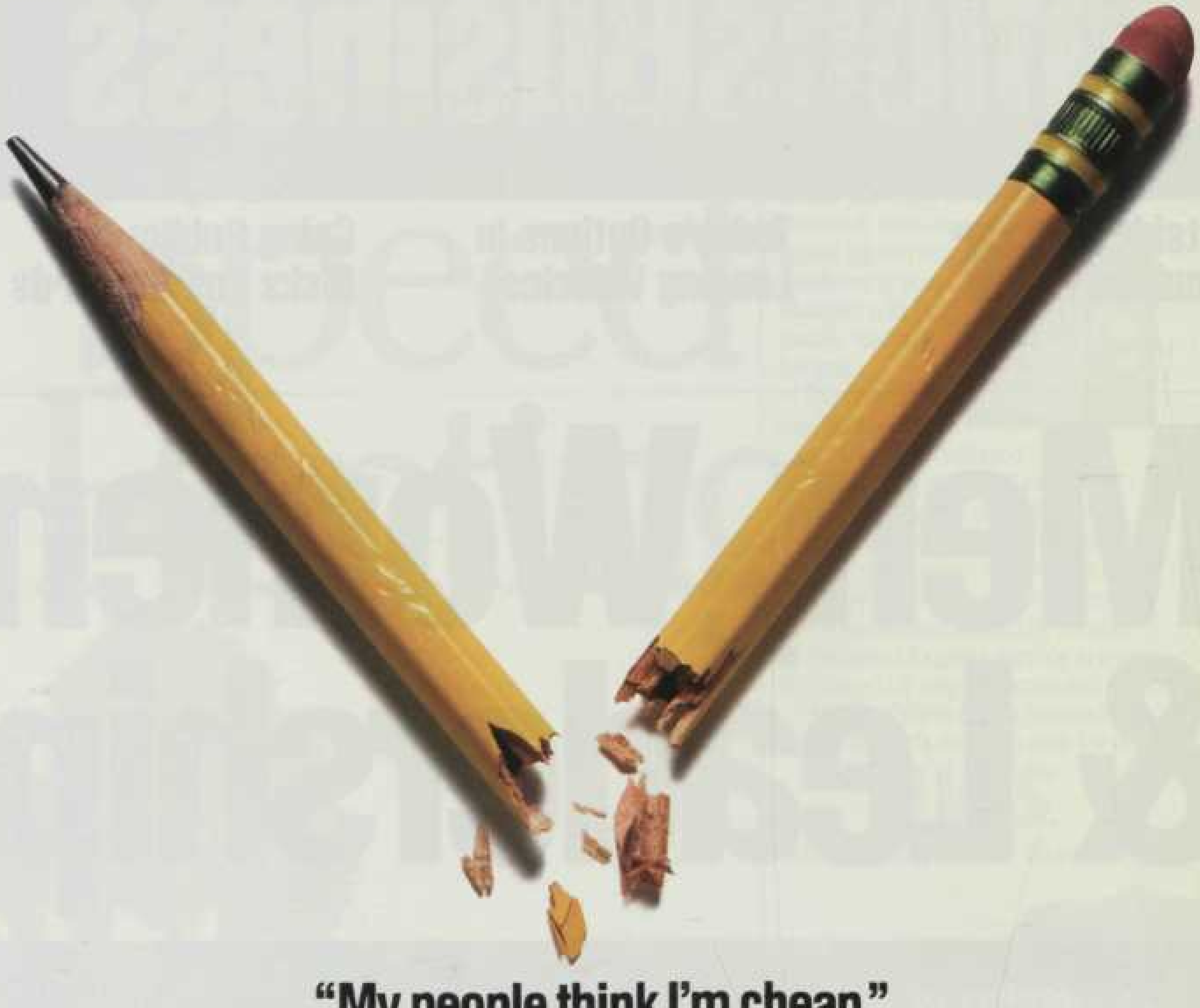

Nation'sBusiness
VOL. 79, NO. 5

PHOTO: ©RICHARD HOWARD

At the top: *Women who succeed as managers are those "comfortable being themselves," says Ellen Richstone, one of many executives recasting the leadership styles of men and women. Cover Story, Page 16.*

PHOTO: ©PAUL FETTERS

At the movies: *Russell Goldsmith is transforming Republic Pictures. Lessons of Leadership, Page 54.*

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Editor's Note

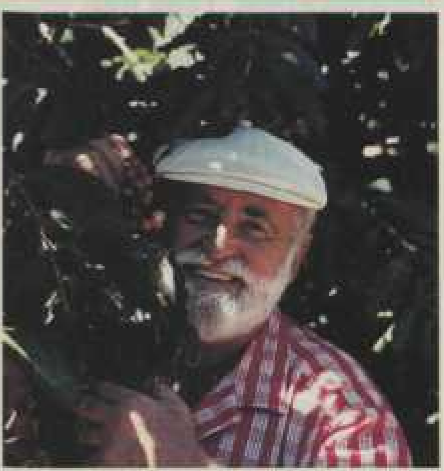

PHOTO: ©M.K. HEMP

On an island: *Ice cream king Walter Lappert created a rich Hawaiian institution. Making It, Page 11.*

DEPARTMENTS

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Cover Photo: ©Wayne Sorce

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Now It's A Question Of Who's Training Whom

"We have found women under proper conditions and with proper training almost—if not quite—the equal of men on work to which they have been assigned."

The June 1918 issue of *Nation's Business* carried that quote from a corporate executive. It appeared in an article advising employers on policies for accommodating the growing number of women taking over jobs in labor-short defense industries. That advice included the statement: "Women work best under male supervision."

As the covers pictured above and this month's cover story show, the subject of women in business now encompasses factors scarcely imagined in 1918. Those three cover stories, as well as this month's article, "Men, Women & Leadership," were written by Special Correspondent Sharon Nelton, whose coverage areas include both women in business and family businesses.

Her story this month deals with the special leadership traits that men and women bring to managerial positions and how forward-looking companies will allow both men and women to develop those abilities to the fullest. Nelton writes:

"Smart companies are making room for a diversity of styles, encouraging the development of women leaders along with the men. The fortunate businesses are those in which these differing styles become complementary rather than confrontational."

In those situations, she adds, "men and women are learning the strengths of each other's approach."

How specific companies use the differing but complementary leadership traits of men and women is a story you'll want to read. It might not apply to your firm today, but it might someday soon.

Robert T. Gray
Editor

Letters

Pension Plans: Huge Losses Ahead?

I agree with much of "The Threat To Pension Plans" [Cover Story, March]. One thing missing, from a taxpayer's perspective, is the specter of huge losses to be paid by the public through the Pension Benefit Guaranty Corp.

This is another case where Congress injects itself into some aspect of business it doesn't understand, makes sweeping changes, and the final result is another large bill for taxpayers. Officers or directors of a corporation would be inundated with lawsuits for the exercise of such poor judgment.

T.D. James
T.L. James & Co.
Ruston, La.

The IRS Should Back Off

The small employer is being victimized and prevented from providing a reasonable pension for himself and his employees. The most recent outrage is the Internal Revenue Service's small-plan audit program. The private system has worked remarkably well until recently

and may still recover if Congress and the IRS stop revenue-driven legislation and regulations.

Raymond W. Liden
Liden, Morton, Nestle & Co.
Westlake Village, Calif.

[Editor's Note: For a close look at what Mr. Liden calls "the most recent outrage," see "The IRS Targets Small Pension Plans," on Page 44 of this issue.]

Pension Firms, Look Out

As the owner of a small business, I know the agony of meeting payroll and trying to keep down overhead. I also get frustrated with our meddlesome and at times anti-small-business Congress.

Our firm is a full-service retirement-plans company with a client base that averages 22 participants per plan, and so I know something about pension plans. I think owners terminate pension plans less because of federal regulation than because of overly aggressive pricing from some plan providers.

I was amazed that the annual cost of a 15-employee defined-contribution plan in 1991 was $3,412. Our charge for the same plan would be under $1,000, and I know my competitors are in the same range.

If attorneys, plan administrators, actuaries, and other professionals continue to gouge and take advantage of their clients, they will find themselves without clients.

My challenge to the pension industry is to set reasonable fees, educate clients, make sure employees have a full understanding of their plan, sell plans on a basis other than as a tax shelter, and refuse to deal with selfish employers whose only interest is accumulating funds at the expense of employees who help earn the profits.

Michael J. Hunter
Hunter Midwest, Inc.
Kansas City, Mo.

An Overlooked Source Of Workers

The labor resource provided by vocational schools is overlooked by business and industry as they confront the worker shortfall ["Finding The Right Workers," February]. Vocational technical schools are turning out skilled, quality workers who value the world of work, cherish and respect the work ethic, and are educated with a diverse curriculum, giving them flexible skills that adapt to the changing needs of their employers.

We have the faculty and facilities, and we are able and willing to tailor any training program to enhance current or future work forces.

Joseph A. Mazzarella
Director of Occupational Education
Quincy Public Schools
Quincy, Mass.

Don't Blame The Schools

I take umbrage with one of the three reasons behind our growing labor diffi-

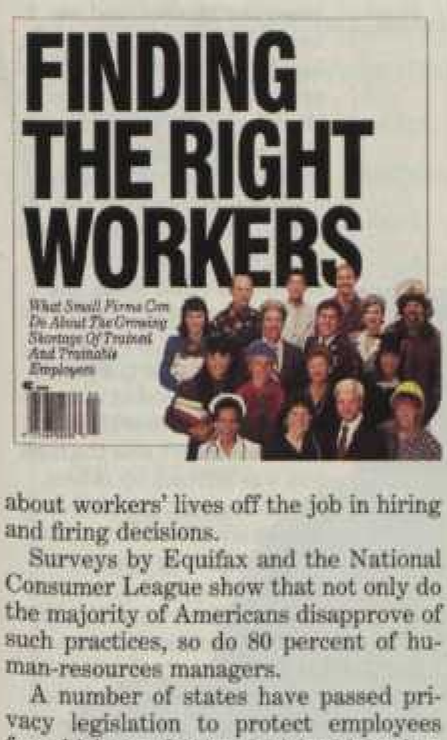
culties in the February cover story: declining educational quality. In point of fact, what has changed is the human quality of the students who come to the educational process at all levels; substance abuse, poor family life, students too tired to learn from working too many hours outside of school.

When society, parents, and students re-examine basic values, that's when students will begin to learn the needed skills.

Barton L. Griffith, President
Griffith & Associates, Inc.
Yucaipa, Calif.

Don't Forget Privacy

One of the causes of labor difficulties not cited in your cover story is the workplace privacy issue. Morale and trust are being eroded by the use of information



about workers' lives off the job in hiring and firing decisions.

Surveys by Equifax and the National Consumer League show that not only do the majority of Americans disapprove of such practices, so do 80 percent of human-resources managers.

A number of states have passed privacy legislation to protect employees from hiring and firing decisions based on legal activities away from the workplace.

These laws hark back to an observation of Supreme Court Justice Louis Brandeis: Among the rights conferred by the Constitution, the one that Americans value most is the right to be let alone.

Jack Nelson
Vice President, Corporate Affairs
Philip Morris
New York, N.Y.

The Smell Of Success Casts The Wrong Scent

"What Does A Smell Look Like?" [March], the story of how Arkansas entrepreneur Patti Upton started making decorative room fragrances, left a very bad odor with me when I realized how Mrs. Upton acquired the capital to start her business.

Inheriting and marrying into wealth is great for those lucky enough. But those of us who have to go from paycheck to paycheck and would like to start a business of our own find it a little more difficult.

Gil Beck
Controller
Red River Specialties, Inc.
Shreveport, La.

[Editor's Note: Patti Upton used a $10,000 bequest to start Aromatique. Dick Upton notes that he invested only after his wife's company was established and other financing was readily available to her. He notes that his wife's company is now much larger than his own. We believe that Patti Upton's success carries a lesson of the value of product and marketing innovations in establishing a business.]

Deduction Correction For The Self-Employed

Your March article on 1990 tax returns ("What Will You Give To The IRS This Year?") incorrectly describes how self-employed people compute their Social Security/Medicare taxes.

The article says that "the self-employed may either deduct 50 percent of the self-employment tax paid in 1990 or reduce taxable self-employment earnings by 7.65 percent."

In fact, the self-employed can do *both*, not either.

This dual reduction/deduction treatment is not entirely clear in the statutory language, enacted in 1983, but it is necessary to achieve consistency with the treatment of FICA taxes paid by employees and their employers.

The Internal Revenue Service puzzled over the law for quite a while but eventually came to the right conclusion, which is reflected in the 1990 Schedule SE and its instructions.

Bruce D. Schobel
Actuary
New York Life Insurance Co.
New York, N.Y.

[Editor's Note: Reader Schobel is correct. Experts who reviewed the article's tax-calculation details before publication missed the portion on self-employment tax.]

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Nation'sBusiness

The United States Chamber of Commerce, publisher of Nation's Business, is a federation of businesses, trade associations, local and state chambers, and American chambers of commerce abroad.

ENTREPRENEUR'S NOTEBOOK

Personal Reassessments

By David J. Levy

Large companies can be very good for entrepreneurs, both as customers and as teachers. My partner, Bill Quinn, and I are both glad that we had the chance to learn and develop our skills in big companies.

We were both in high-tech fields—I was working for COMSAT as a senior business analyst, and Bill was a sales representative for Hewlett-Packard. Although many people like large offices for the weekly paycheck or the social atmosphere, those factors weren't very important to Bill or me. We wanted to acquire experience that would lead to our own enterprise. Neither of us wanted to spend our lives with a big company. My plan was to get trained in a large company, to get a feel for the politics, and to understand the protocol of how things are presented and sold to big companies.

Bill and I met at a real-estate seminar about four years ago; we both were small-time real-estate investors. With our mutual interest in real estate, high technology, and entrepreneurship, we created Property Tax Specialists, Inc. It fit our requirement for a business that would be service-oriented, not capital-intensive. We took real-estate license exams and appraisal courses, and we researched the field of tax appeals.


PHOTO: T. MICHAEL KEZA

Reducing taxes: *William Quinn and David J. Levy.*

In the late '80s, I felt that the real-estate cycle in the Washington metropolitan area was about to change. I was convinced that the run-up in prices just couldn't go on forever. The properties weren't worth their selling prices. Because of institutional money and inflated appraisal assumptions, the market was becoming overbuilt.

It followed that the tax assessments on many properties might be too high for the actual income they generated, and that owners of midsized businesses could not afford expensive lawyers and appraisers—who also lacked technical backgrounds—to make cases before assessors and boards.

We also believed that analyzing the methodology of assessment offices seemed a good way to go. These offices were supposed to be applying the same rules to everybody, but we believed we could show in many cases that they did not. We also thought that whatever tax representatives were doing for big corporations could be done for smaller ones that couldn't pay the big fees. We envisioned a small company able to provide service without having the huge overhead.

We went to Empress Software in Greenbelt, Md., for software we could use to catalog every assessment of every property in the Washington area and to search the database according to several criteria. That database is the heart of our success. We built this database on the assumption that at least one-third of a successful appeal consists of information management; this was our competitive advantage.

Meanwhile, I worked nights to earn enough extra money to get started. Bill fell back on residual commissions. We felt we knew the market, and we even had some customers lined up. We wrote our business plan and consulted with the Washington law firm of Kirkpatrick & Lockhart, and in 1988 Property Tax Specialists was incorporated.

Our instincts turned out to be right. Our firm has won cases that other firms had declined to appeal. In one situation recently, a building that sold for nearly $40 million was assessed at over $30 million. The owner thought the assessment was too high but was advised by others not to appeal it because it was below the selling price. We thought the assessment should be appealed, and we had it reduced to $30 million, which saved the owner $25,000 that year on a tax bill of several hundred thousand dollars. Our database and our unique ability to uncover inequities in assessments within an area made the difference in this case.

Typically, our assessment reductions are 10 to 15 percent, though sometimes they reach 25 percent or more.

Property Tax Specialists may not be the biggest appeals firm, but size is not our objective. We learned from our experience in major corporations that big can mean slow and bureaucratic. Because we appeal each case ourselves, we provide personal service. Other firms can't do this.

As we have begun to acquire large clients, such as Trammell Crow Residential and NV/Ryan, we have drawn on our backgrounds in big business. Bill has great natural sales skills, and he received excellent sales training at Hewlett-Packard. I have an MBA from Carnegie-Mellon and gained strong financial experience from working at Hughes Aircraft and COMSAT. Our skills are complementary, and we know how to make successful presentations to large companies.

And then there's the motivation: We want to make our mark through a value-added service. We want people to be able to say, "These guys do it right."

We took our core skills, refined them with what we learned in corporate environments, and started a firm. Others can do the same. The corporate environment is not a trap unless you convince yourself that it is. It's truly an opportunity. NB

David J. Levy is co-founder of Property Tax Specialists, Inc., in Rockville, Md. He prepared this report with free-lance writer Sara Elizabeth Levy.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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She served as aviation editor for *Cosmopolitan* and designed and marketed a line of luggage. She founded two successful airlines and created fashions for top department stores like Macy's and Marshall Field's.

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Managing Your Small Business

Helpful tips on matters such as transferring assets, renting an office, and warehousing your merchandise.

By Bradford McKee

FINANCE

Asset Transfers: Handle With Care

Hard-pressed small-business people frequently receive advice on protecting assets from claims, taxes, and judgments. But they should be wary about acting on such suggestions, says Donald A. Wich Jr., a litigation attorney in Pompano Beach, Fla.

Wich points out that asset transfers designed to "hinder, delay, or defraud" a creditor are unlawful in many states. He notes that 22 states have adopted the Uniform Fraudulent Transfer Act, which sets standards for measuring the intent of asset shifts. Among other things, it asks whether a debtor retained possession or control or had been sued or threatened with a suit prior to the transfer.

In states without specific fraudulent-transfer statutes, Wich notes, it is sometimes more difficult to prove intent under common law. Such cases can turn on the question of a "misrepresentation" of assets or a debtor's statement that a given property was sold in an arm's-length transaction in the normal course of events.

If no such "misrepresentation" has been made, Wich says, prospects for proving fraud under common-law theories can be difficult.

PHOTO: ©STAN FELLERMAN—THE STOCK MARKET

Uniform state laws *govern attempts to shift assets sought by creditors.*

ENTERPRISE

Small Business Week Applauds Entrepreneurship

This year's Small Business Week is May 5 to 11. Events around the country and in Washington, D.C., will celebrate the contributions of smaller companies to the U.S. economy. During that week, the U.S. Small Business Administration will name its small-business persons of the year, advocates of the year, exemplary contractors, and outstanding exporters, and the agency will present the Entrepreneurial Success Award.

To learn more about Small Business Week activities, call (202) 205-6744, or contact your regional SBA field office for details.

VALUATION

Circumstances Can Affect Appraisals

Your reason for having your firm appraised could affect the outcome, says Joseph A. Blanco, a partner in the Chicago office of Arthur Andersen & Co.

A "continuing-use" evaluation of assets considers their economic weight when used as they always have been, says Blanco. A "liquidation" evaluation assumes that a firm's assets will be sold, and prospects of a forced liquidation or "sheriff's sale" bring the lowest value for a firm.

Two appraisers may give much different values for a firm, he says, but "it's not subjectivity so much as the [appraisal] circumstances"—for instance, a tax assessment vs. an estimate of fire damage—that can cause differences.

LOGISTICS

Warehouses Should Go With The Flow

You can improve the productivity of your warehouse by making sure it doesn't suffer from a poor layout, says Thomas L. Tanel, principal of Cattan, a Toms River, N.J., logistics advisory firm. He advises warehouse operators to be alert for these common layout problems:

Unexplainable delays and idle time for staff;

Difficulty finding stock;

Crowded or cramped areas;

Too many workers moving inventory;

Bottlenecks in materials flow;

Double-handling of materials;

Too much temporary storage;

Fixed obstacles in materials flow;

Wasted space.

LEASING

Ways To Make The Most Of Rental Expenses

The cost and conditions of acquiring office space can have a "major impact" on your firm's success, says Cathy Conway, senior property manager with the Joseph Development Co., in Chicago.

Conway recommends certain steps that you should take to spend your firm's rent dollars wisely.

Find out if the rent includes real-estate taxes and operating expenses, Conway says. Know your responsibility for increases in taxes and building expenses.

If you hope to expand your business, Conway advises, you should know also if you would have the option of terminating the lease in order to acquire larger space in the building.

Find out if you'd have first refusal on adjacent space.

Finally, says Conway, ask whether you would have 24-hour access to your building and whether heating and air conditioning would be available after business hours.

NB TIPS

✓ RADAR, a software program that enables smaller businesses to establish intelligence systems as a competitive tool, has been developed by Real-World Intelligence Inc., in Washington, D.C. The program walks the user through the steps of identifying what information the business should monitor and where it can be found. Intelligence information can cover competitors, customers, suppliers, markets, and relevant scientific, technological, economic, and political trends. The package is available for $89.95, plus $3 for postage and handling, from Real-World, P.O. Box 3566, Washington, D.C. 20007. To use a credit card in ordering, call (800) 955-RADAR.

✓ The *1991 U.S. Industrial Outlook*, available from the U.S. Department of Commerce, is a valuable resource for business-planning data. The volume includes growth forecasts for 350 industries. The book costs $28, plus $3 for handling. Microfiche copies are $15, plus $3 for handling. Send a check, payable to NTIS, to Attn: Sales, 5285 Port Royal Road, Springfield, Va. 22161. To order with a credit card, call (800) 553-NTIS. Refer to publication PB91-100123. NB

Dateline: Washington

Business news in brief from the nation's capital.

By Mary McElveen

TRADE

Walesa Urges U.S. Firms To Invest In Poland

Polish President Lech Walesa said his government is reducing barriers to foreign investment, and he urged U.S. companies to come and do business in his country.

"The returns [on investments] will be much greater than the outlays," Walesa promised.

Walesa's comments were made at a business-in-Poland symposium at the U.S. Chamber of Commerce in Washington.

He compared Poland's current quest for economic progress to the spirit that motivated "the great American move to the West in the last century."

He said Poland has had a tradition of wanting to work with America and that, as far as he is concerned, "every second company [in his country] should be American."

As evidence of Poland's desire for U.S. investment, Walesa said, visas will no longer be required for American citizens visiting his country.

In other remarks to the symposium, Poland's industry minister, Andrezej Zawislak, conceded that foreign investors in his country still must cope with excessive red tape. Nonetheless, he said, Poland's new government is committed to reducing such barriers and to privatizing most of its 2,000 state-owned companies. He noted, though, that the process will take time.

Walesa, who took office in December as Poland's first democratically elected president, reminded the audience that he had told Americans earlier last year that Poland was committed to change. Americans, he said, weren't sure whether to believe him then, but now, he emphasized, "I'm running the country."

For information on doing business in Poland, call Thaddeus Kopinski, executive director of the Polish-U.S. Economic Council, at (202) 463-5482.

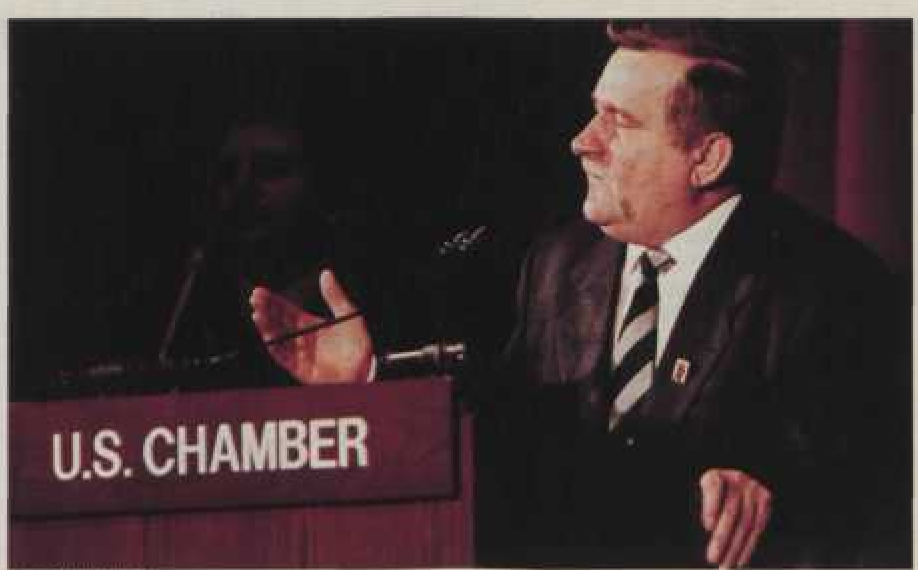


PHOTO: T. MICHAEL KEZA

Polish President Lech Walesa *at the U.S. Chamber of Commerce.*

TAXES

Business Fights Measure To Raise Unemployment Tax

Business is voicing strong opposition to a bill that would increase the federal taxes that employers pay to finance the nation's unemployment-compensation system.

Introduced by Rep. Thomas J. Downey, D-N.Y., the measure is being driven by the nation's rising unemployment rate. The legislation would federalize the joint state-federal program of extended benefits and expand eligibility for basic benefits to virtually all unemployed individuals, including those who leave their jobs voluntarily. Eligibility is currently limited to experienced workers who become unemployed through no fault of their own.

To finance the expanded system, the legislation would raise the annual amount of wages per employee subject to the federal tax from $7,000 to $55,800 beginning in 1992. The wage base would then rise each succeeding year according to an inflation-related formula.

The bill would lower the effective federal tax rate from 0.8 percent to 0.3 percent over five years. But a U.S. Chamber of Commerce representative told a House subcommittee that the net outcome would still be "a mammoth employer tax increase."

Ronald L. Adler, president and chief executive of Laurdan Associates, Inc., a management consulting firm in Potomac, Md., said that Downey's bill would dramatically increase the cost of labor and serve as a powerful inhibitor of job creation and economic growth.

The U.S. Labor Department says Downey's bill would also indirectly result in increases in state unemployment taxes because the benefits distributed would rise. State unemployment taxes finance basic benefits and half of extended benefits, while federal taxes finance the administration of the benefit system and half of extended benefits.

JOB DISCRIMINATION

New Civil-Rights Bills Win Employers' Support

A broad-based coalition of businesses and professional organizations has thrown its support behind two new civil-rights measures aimed at preventing job discrimination. The measures are a bill introduced in the Senate by Alan K. Simpson, R-Wyo., and the Bush administration's proposal, introduced in the House and Senate, respectively, by Minority Leaders Robert H. Michel, R-Ill., and Bob Dole, R-Kan.

Both "are acceptable alternatives" to a House bill introduced by Rep. Jack Brooks, D-Texas, says Heidi Stirrup, the Fair Employment Coalition's lobbying coordinator.

Business adamantly opposes the Brooks bill on the ground that it would lead to hiring quotas and make businesses vulnerable to unlimited awards for damages. The new bills would limit damages and avoid quotas.

Making It

Growing businesses share their experiences in creating and marketing new products and services.

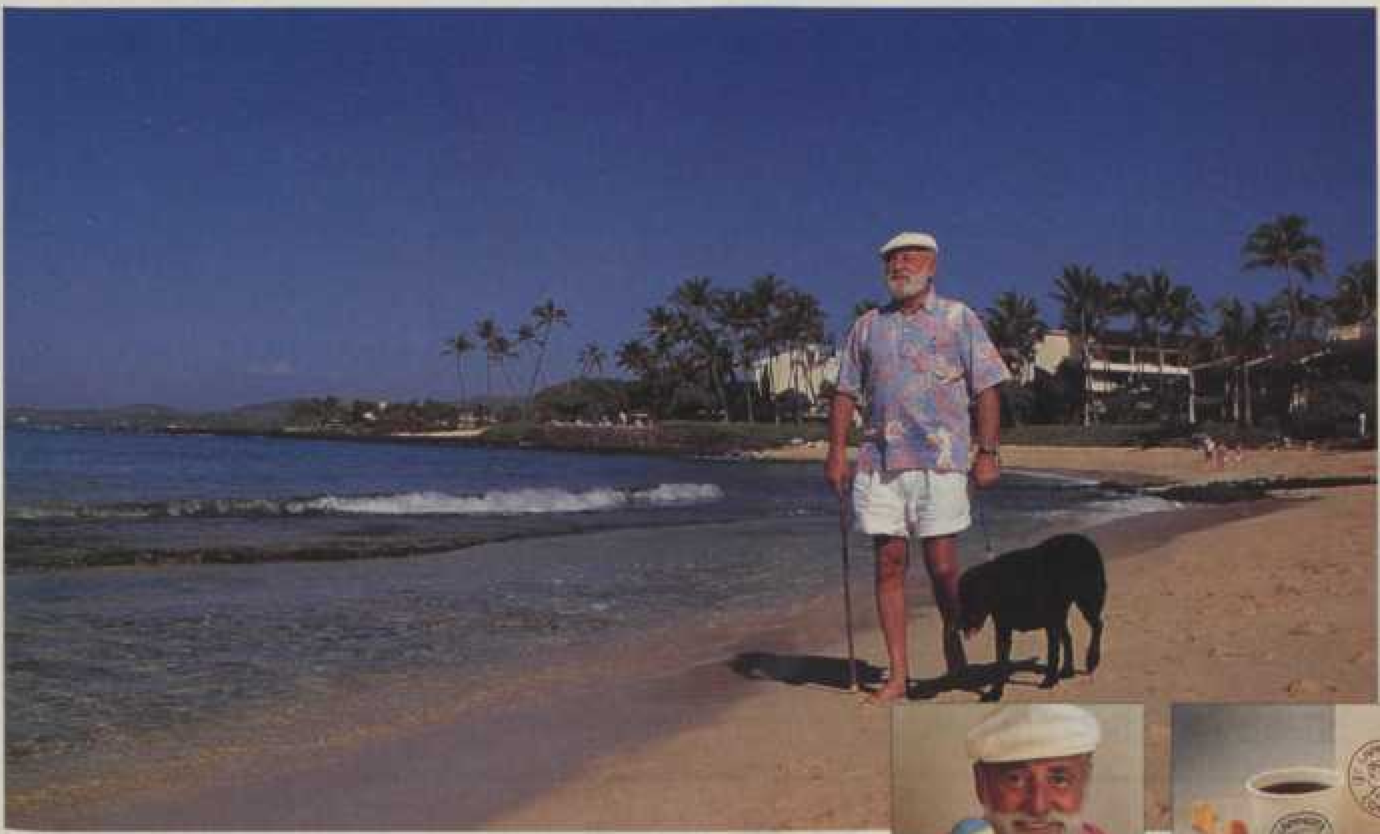
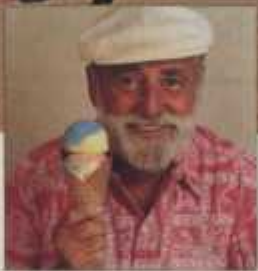


PHOTO: ©DANNA MARTEL—CAMERA HAWAII; INSET PHOTOS: BOB KULESH



Quintessentially Hawaiian: *Walter Lappert and Maxi on Kauai beach; the ice cream and coffee he created in "retirement."*

How A French Boy From Vienna Became Hawaii's Ice Cream King

Walter Lappert smiles as the interview begins: "What kind of lies would you like to hear from me?"

Lappert is only joking; the truth about his life and business is far more interesting than any fictions he might come up with.

Lappert's is one of the most familiar faces in Hawaii. His white-bearded profile appears on a medallion identifying his ice cream and coffee, which are sold through 19 shops of his own and in hotels and retail outlets throughout the islands (and in parts of California, too). He opened his first ice cream store in 1983, after "retiring" to the island of Kauai; now he sells $15 million worth of ice cream and coffee every year.

Walter Lappert, 70, has become the Hawaiian equivalent of Colonel Sanders. His ice cream and coffee have won a devoted following because they seem so quintessentially Hawaiian. The handmade ice cream is "super-premium"—it contains 16 to 18 percent butterfat, compared with the average of about 10 percent in most ice cream—and Lappert based many of his flavors on local ingredients. "Kauai Pie," for instance, is a mixture of Kona coffee ice cream, chunky macadamia nuts, coconut, and chocolate fudge. You can also indulge in such flavors as guava cheesecake, Kona blue espresso, mango, and poha berry. A single-dip cone sells for around $2.

Lappert himself seems in many ways quintessentially Hawaiian, too—his ordinary business attire is a flowered shirt, shorts, sandals, and trademark cap, and he begins each day by swimming in the surf with his black Labrador, Maxi—although he is in fact a far more cosmopolitan figure. His accent alone suggests that; it is at bottom French, but it has been layered over with many other languages.

He was born in Vienna, the son of a French father and an Austrian mother, and he grew up there and in Prague, mostly under the wing of his Austrian grandparents. They owned a shop, he recalls, "where they made apple strudels and sold coffee, and in summertime, when the fruit was ripe, they made peach or strawberry ice cream."

With World War II on the horizon, Lappert moved to Paris, and by 1940 he was a lieutenant in the French Army. He was wounded in the leg by an exploding artillery shell, and he still walks with a cane, which he also uses for a certain theatrical effect ("you know—the Maurice Chevalier sort of thing").

When France was knocked out of the war, Lappert found himself in Mar-

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seilles; on a lark, he tagged along with 1,200 French soldiers who were returning to the Caribbean island of Martinique. From there—at the suggestion of a French soldier whose wife was Ecuadorean—he went to Ecuador. He wound up working there and later in Venezuela for an American-owned distiller. He then went into business for himself in Venezuela, as a liquor importer.

Later, he says, "the dictator left, and I had to leave in a hurry myself." His mother was living in San Francisco by then, and Lappert lighted there in the early '60s with well over $1 million in assets, a wife, and four children.

He quickly lost both the money and the wife in a failed effort to get back into liquor importing. Walking the streets in San Francisco, he ran into an old French army comrade who talked him into becoming a waiter at the Fairmont Hotel. He found that job easy and lucrative, he says, "because I was brought up with a lot of that stuff; I knew that it came in from the left and went out on the right."

But business beckoned, and Lappert opened a takeout shop in nearby Sausalito—"French crepes to go." After four years, he converted the shop to fish and chips. "I put in 14 years behind the counter, seven days a week," he says. "I discovered a lot of great things. You become a pompous ass after a while, if you navigate in prosperity. You sort of forget the realities of life."

Lappert and his second wife retired to Kauai, the greenest and westernmost of the Hawaiian islands, in 1981. After sampling the local ice cream and finding it wanting, he decided to go into the ice cream business himself, and he put $110,000—a large part of his savings—into building a small factory and store in the town of Hanapepe. In the first three weeks he sold as much ice cream as he thought he might sell in six months. His key decision was to use Hawaiian ingredients heavily: "It was not a patriotic endeavor; basically, it was because there'd be less to import."

Lappert's ice cream has since become an institution on the island, and his coffee is now acquiring the same status (Lappert became "a coffee freak" in Ecuador; he remembers breaking up the beans with a mallet). But Lappert himself can no longer enjoy the ice cream he makes: He gave it up about five years ago on doctor's orders. He now makes a few fat-free and sugar-free flavors, but he can't bring himself to eat them. Eating healthful ice cream, he says sadly, "is like driving a Ferrari with gloves on."

—Michael Barrier

A Virginia Entrepreneur Has An Idea About Handicaps And Success

Handicaps have been a big help to Charles Thompson's career.

He was born with dyslexia, a mental malfunction that makes reading and writing difficult. So he concentrated on getting ideas across verbally and visually.

For much of Thompson's boyhood, a neighbor of his parents in Asharoken, N.Y., was Rube Goldberg, the cartoonist famed for dreaming up complex ways to perform simple tasks. Entranced by Goldberg's creations, the boy developed a talent of his own for cartooning.

He put the talent to profitable use 16 years ago when, at age 27, he went into business creating health-education videotapes. They featured cartoons he drew. Tape after tape was a success in the marketplace. But eventually the business appeared headed for failure. Reason: another handicap. Chic Thompson was a poor manager.

PHOTO: T. MICHAEL KEZA

Juggling concepts: *Chic Thompson leads creativity workshops.*

When he started the Charlottesville, Va., company—with $5,500 of his own and like amounts invested by two local physicians—he was its sole employee. He contracted out production, noncartoon content, and distribution.

A dozen years later the business had diversified into advertising-agency work and videotapes outside the health field. Tens of thousands of dollars had been plowed back into it. It had 10 employees. And it was losing money in a big way.

"I was on the second floor in an office with nice wood paneling," Thompson says, "and everyone else was in a bullpen on the first. I had people fighting each other; I wasn't in touch with them as I should have been. Or with the customers or the financial ratios."

So he bought out the physician-investors, keeping rights to the videos, and helped employees start two graphics-arts firms. Today his Creative Management Group consists only of Chic Thompson and an office assistant. It has a different product: creativity-spurring techniques, which Thompson espouses at workshops for companies, business groups, and government agencies.

He puts his 1990 gross at more than $500,000. Of that, $150,000 is from the health videos, which he expects won't be outdated for several years. The rest comes from speaking fees (full-day workshop, $2,000 plus expenses; lunch or dinner talk, $950).

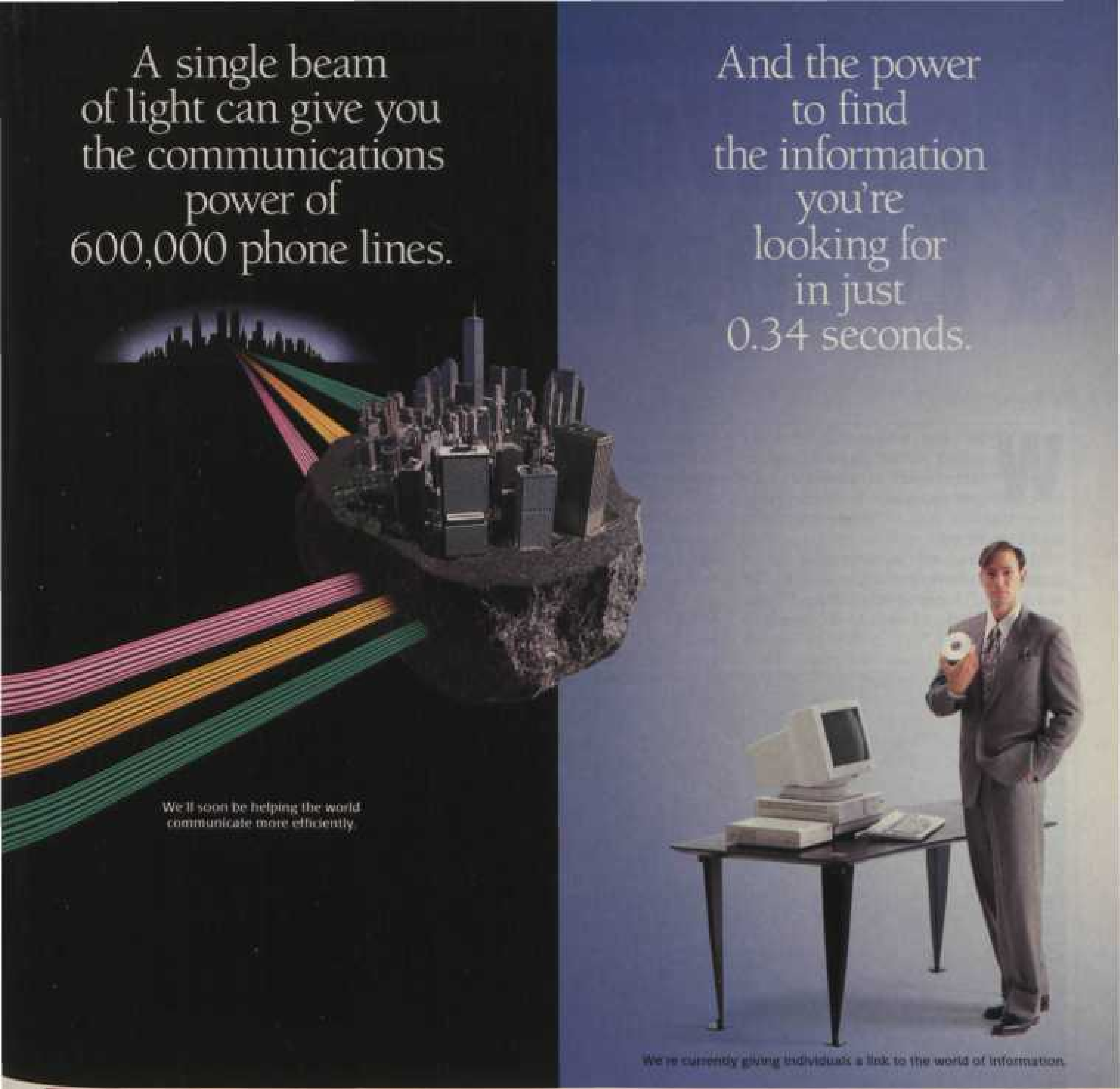
Thompson's videotapes brought him his first speaking date. One distributor was Encyclopaedia Britannica Films. Recalls Thompson: "The president phoned and said, 'How can a little guy like you produce three of our best-selling videos? Where do you get your ideas?' I said I had some techniques. He invited me to Chicago to talk to his people.

"I got them to throw me a problem, and we brainstormed. After 15 minutes I was asked to leave the room. I'm thinking, what did I do wrong? Was it that I took my coat off? These people were very conservative. Then they called me back and said they had done more in those 15 minutes of brainstorming than they had in three months on that problem. They asked me to be a consultant for them. I was, for a year."

Thompson has borrowed some of his creativity techniques, created others. One technique is "idea mapping"—you write down a word summarizing your focus, then put other words around it as they pop into your head. Helpful patterns may emerge. Another is thinking in opposites—seeing what a problem *is not* can generate fascinating ideas.

In between speaking dates, Thompson has worked with a ghostwriter on a book; *What a Great Idea!* will be published next year by HarperCollins. And he talks of innovative ventures in education. He says he wants to do what he urges audiences to do: step out of line, not form one.

—Henry Altman



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COVER STORY

Men, Women & Leadership

By Sharon Nelton

When Kay Unger and Jon Levy joined forces 18 years ago to form Gillian, a women's clothing company in New York, they weren't out to prove anything about leadership.

"I'm interested in making a lot of money but having a lot of fun at the same time," Levy recalls telling Unger. "If that's what you want to do, then let's go into business."

They've met those two goals. Their annual revenues exceed $125 million, they employ 300, and they sell chic career fashions throughout the United States, Canada, Europe, and Australia. And they seem to be having a good time doing it.

But in the process, they've also unwittingly made some points about leadership: that men and women managers can work comfortably together at the top and that their differing styles of leadership can be complementary, producing a synergism that gives the company benefits it would not receive if two men or two women were in those jobs.

Unger and Levy and two other male-female partnerships included in this article symbolize some of the questions that businesses are raising about leadership these days:

Are women's leadership styles different from men's? Are women's ways of leading more effective than the traditional "command-and-control" style? As women continue to start and grow their own businesses and to advance to senior corporate levels, what changes will they bring to American business?

Until very recently, the general perception of business management was a structure dominated by males whose leadership style was hierarchical, action-oriented, and even quasi-military. The ideal leader was seen as an independent, tough, individualistic hero—like a John Wayne character or the real-life Lee Iacocca.

But now a new generation of women is bringing to business a style often described as more consensus-building, more open and inclusive, more likely to encourage participation by others, and even more caring than that of many males.

Smart companies are making room for

By combining *different leadership styles, Kay Unger and Jon Levy have built Gillian to sales of $125 million a year.*

PHOTO: ©WAYNE SORCE

Smart companies are making room for diversity by drawing on the complementary leadership styles of both men and women.

a diversity of styles, encouraging the development of women leaders along with the men.

The fortunate businesses are those in which these differing styles become complementary rather than confrontational. Men and women are learning the strengths of each other's approach. Many women are incorporating the best of the traditional styles, such as focus on performance, into their leadership portfolios, while more men are adopting the so-called "soft" approaches that women use effectively.

The timing may be just right. Recent studies show—and an increasing number of business people are expressing agreement—that women are especially suited to leadership. Moreover, according to the studies, leadership based on greater openness and interaction with people is especially suited to a contemporary work force whose members identify with such traits far more than previous generations did. That is particularly true, the experts say, of today's better-educated work force.

Edward M. Moldt, managing director of the Snider Entrepreneurial Center at the Wharton School of the University of Pennsylvania, says that the women's approach is "one that is right for the times." Today's companies, he says, require leaders who not only are risk takers and visionaries but also are "strong enough people that they're capable of hearing the ideas of others and really empowering them to use some of those ideas in changing businesses and in making them successful."

Women can meet this challenge very well, he suggests, because they are "very comfortable with having to persuade people, to encourage, to motivate," while men are "used to giving orders and having them followed."

Judith Hoy of Learning Systems, a New York consulting firm specializing in management effectiveness, notes that female leadership traits can help companies solve three major problems—the need for better customer service, the demand for higher quality, and the need for leadership itself. All require the relationship-building skills at which women excel, Hoy says.

Dealing with these problems also requires the ability to build networks, to listen, to resolve conflict, and to get people to work together, says Hoy. "While these skills are not the sole property of women," she says, "research and experience suggest that women are more likely to have them."

In addition, women can help companies be more competitive because they see business opportunities as a result of their own experience. Gillian has achieved its success in part because its female co-leader, Kay Unger, had the

PHOTO: ©RICHARD HOWARD

Ellen Richstone, *chief financial officer of Bull HN, says leaders who follow their own style are more effective.*

COVER STORY

PHOTO: ©JIM HEEMSTRA

Poet and leader *James Autry, left, says labor shortages later this decade will force companies "to embrace different styles of management."*

sense to cater to career women like herself. She believes she understands the needs of working women all over the world. "I think we can grow very well in an international market," she says.

As never before, the United States is seeing the emergence of the female leader. It's happening most quickly on the entrepreneurial side, where women start at the top by launching their own companies—more than 4 million of them in the U.S. now.

However, the female leader cannot help but emerge also on the corporate side in this decade and the next as a lower percentage of white males in the workplace forces companies to dip into the growing pool of women and minorities for executive talent.

A survey of high-level executives by Russell Reynolds Associates, Inc., a New York-based executive recruiting firm, categorized respondents as "leader-style" (that is, visionary, innovative, and strategic in their thinking) or as "manager-style" (concerned with maintaining momentum, balancing interests, stabilizing forces, and implementing tactical plans). The study found that women in both staff and line positions were more likely to be leader-style executives than their male counterparts.

In a *Harvard Business Review* report on a leadership survey that she conducted for the International Women's Forum, in Washington, Judy B. Rosener says she found that the women respondents tended to use what she calls an "interactive" leadership style, in which they not only encouraged others' participation but also attempted "to enhance other people's sense of self-worth and to energize followers." These women leaders, she says, "believe that people perform best when they feel good about themselves and their work."

The study, based on responses from 456 executives—355 women and 101 men—found that the women were also more likely to use what experts call a "transformational" style, getting subordinates to transform their own self-interest into the goals of the organization.

The male respondents leaned toward the traditional "command-and-control" style. They were more likely to employ a "transactional" leadership, viewing job performance as a series of transactions with subordinates and offering rewards for services rendered or punishment for inadequate performance.

"While men have had to appear to be competitive, strong, tough, decisive, and in control, women have been allowed to be cooperative, emotional, supportive, and vulnerable," says Rosener, a management professor at the Graduate School of Management of the University of California in Irvine. "This may explain why women today are more likely than men to be interactive leaders."

In her book, *Feminine Leadership, or How To Succeed in Business Without Being One of the Boys* (Times Books, 1985), Marilyn Loden, a San Francisco corporate management consultant, wrote: "In some respects, it seems that women managers may be better prepared to cope with the challenges of the future than many traditional male leaders who succeeded in the past. For many of the characteristics being touted as critical for future success—concern for people, interpersonal skills, intuitive

Leadership Vs. Management

Is there a difference between managers and leaders? While some business people use the words interchangeably, leadership experts often contend that the two are not the same.

In fact, John P. Kotter of the Harvard Business School has written a book on the subject—*A Force for Change: How Leadership Differs from Management* (The Free Press, 1990, $22.95).

In brief, he says management includes the processes of planning and budgeting, organizing and staffing, and controlling.

Leadership, he maintains, consists of establishing direction ("developing a vision of the future ... along with strategies for producing the changes needed to achieve that vision"), aligning people (winning the cooperation of people needed to achieve the vision), and motivating and inspiring.

Management, Kotter continues, produces "a degree of consistency and order," while leadership "produces movement." Both are needed if a business is to prosper, he says: "Leadership by itself never keeps an operation on time and on budget year after year. And management by itself never creates significant useful change."

In his book *On Leadership* (The Free Press, 1990, $19.95), John W. Gardner, former secretary of health, education, and welfare and now a professor at Stanford Business School, lumps "leaders and leader/managers" together to separate them from the general run of managers.

What distinguishes the leaders and leader/managers, Gardner says, is that they think longer-term, beyond daily crises and the quarterly report; they understand how the unit or organization they head relates to "larger realities," such as external conditions and global trends; they influence constituents beyond their jurisdiction; and they "understand intuitively the nonrational and unconscious elements" in the interactions between leaders and constituents.

The routine manager tends to accept organizational structure and process as they are, but leaders think in terms of "renewal," says Gardner. "The leader or leader/manager seeks the revisions of process and structure required by ever-changing reality."

The two tasks at the heart of leadership are envisioning goals and motivating, according to Gardner. He says leaders "call for the kind of effort and restraint, drive and discipline that make for great performance."

management, and creative problem solving—are qualities that women as a group are encouraged to develop and rely on throughout their lives."

In a position to shape a corporate culture, women business founders say the companies they create are different from most of those headed by men. "The structures that women establish seem to be mechanisms to facilitate team building and fluidity, to empower the entire staff as opposed to creating fiefdoms and territories," entrepreneur Laura Henderson said at a recent symposium sponsored by the National Foundation for Women Business Owners. Henderson is president of Prospect Associates, an $11-million-a-year Rockville, Md., health research and communications firm.

Because they were breaking new ground, the first female executives copied the leadership styles that had proved successful for men, according to Rosener.

"Now a second wave of women is making its way into top management," Rosener says, "not by adopting the style and habits that have proved successful for men but by drawing on the skills and attitudes they developed from their shared experience as women."

What's becoming a thing of the past, says Ellen B. Richstone, are women "who think that the way [they're] going to get to the top is by being more male than the males." A member of an otherwise all-male corporate inner circle, Richstone, 39, is chief financial officer of Bull HN Information Systems Inc., a computer maker with annual revenues of $2.2 billion. Richstone was hired by the Billerica, Mass., company—a member of Groupe Bull—in 1989 to help reverse its downhill slide; she commands a staff of 700 worldwide.

"My feeling is that the women who will do the best in the long run are the ones who are comfortable being themselves," she says. That means they are "strong professionals," but they feel secure enough to wear dresses instead of masculine-looking suits, and, if they're like Richstone, they'll keep a jar of candy in the office. She has been teased that the candy jar is a "typically female" touch, but she says "it's amazing what a little bit of sweets will do in terms of producing an environment of communication and friendliness."

The two types of leadership, one predominantly masculine and the other predominantly feminine, appear to have grown out of two different kinds of experiences—men's in the military and on the playing field, and women's in managing the home and nurturing husbands and children.

But many business leaders and academic experts are reluctant to encourage new stereotypes by labeling one form of leadership male and another female.

In a collection of comments in the *Harvard Business Review* by several writers responding to Rosener's article, Cynthia Fuchs Epstein of the City University of New York wrote: "It is up to the leaders of business and other institutions to affirm the humanitarian values that women are associated with but that men also can (and do) express if they are not made to feel embarrassed about showing them. And those qualities of toughness and drive that many men are made to feel comfortable with should be prized in women who wish to express them when they are appropriate. The category is 'people,' not 'men and women.'"

Gillian's Jon Levy describes himself as more "intense and aggressive" and says his partner, Kay Unger, is more low-key. He attributes their differences not to sex but to their personalities and the types of operations they run. Unger oversees design and production, while Levy is responsible for sales, marketing, and finance.

Unger describes Levy as more strict and rigid ("but in a very good way") because his responsibilities require more structure. Because she deals with creative people, Unger says, she is more fluid, spontaneous, and flexible. But she also thinks she is tougher than her partner and that "he has a kinder heart."

Like Unger and Levy, the principals in two other male-female partnerships—Naomi Young and Lawrence J. Gartner in Los Angeles and Cheryl McArthur and Alan Glen in Washington—have created successful businesses by blend-

PHOTO: T. MICHAEL KEZA

Shopping center developers *Alan Glen and Cheryl McArthur fit some stereotypes, defy others. She says she's more aggressive and ambitious.*

For More Information

The following resources offer leadership training or information on opening up leadership opportunities for women and minorities:

■ *Beyond Race and Gender*, a book by R. Roosevelt Thomas Jr., a leading authority on managing the diverse work force. Available for $22.95 at bookstores or from the publisher, AMACOM, 135 W. 50th St., New York, N.Y. 10020; (518) 891-5510. For mail orders, add $2.50 for postage and handling.

■ National Hispana Leadership Institute, 500 E. 8th Ave., Denver, Colo. 80203; (303) 861-2888. Aims at preparing outstanding Hispanic women for positions of national influence.

■ Center for Creative Leadership, 5000 Laurinda Drive, P.O. Box P-1, Greensboro, N.C. 27402; (919) 288-7210. Offers leadership training programs.

■ *The Challenge of Diversity: Equal Employment Opportunity and Managing Differences in the 1990's*, a free booklet available from BNA Communications Inc., 9439 Key West Ave., Rockville, Md. 20850-3396; (301) 948-0540.

■ "Managing Cultural Diversity," a five-day program for executives; to be offered in March and November 1992. Contact Columbia Executive Programs, 324 Uris Hall, Graduate School of Business, Columbia University, New York, N.Y. 10027; (212) 854-3395.

ing different styles of leadership. Also like Unger and Levy, these partners are linked by neither marriage nor romance.

Young and Gartner firmly believe that leadership style has nothing to do with one's sex. The founders of Gartner & Young, a small law firm that represents major corporations in labor matters, they agree that Gartner is more likely to be the consensus builder while Young is more likely to take the command approach.

"It is very complementary to my personality, and it's a style that I've had for a very long time," says Young, who is majority shareholder of the firm. "From a get-somebody's-attention standpoint, it has been beneficial for me to be direct, no-nonsense, get on the table what you want, and get it done." It's an approach that also saves time, she adds.

"Our management styles develop out of personalities and life experiences, and it's what we're comfortable with," says Gartner. He and his partner find that they can trade styles when the situation calls for it—Gartner can be direct when he has to be, and Young can accommodate and compromise.

"We each have a predominant style, but the other aspects of leadership must be present as tools to use when you need them," explains Young.

McArthur and Glen four years ago founded McArthur/Glen Group, a company that develops and manages upscale outlet shopping centers throughout the country. McArthur sees herself fitting the female leadership mold, describing herself as interactive and as one who encourages participation and tries to share power and information. On the other hand, she is the more aggressive and ambitious of the two partners. "If it had been left up to [Glen], I think we probably would have done only a couple of centers," she says. They now have nine malls up and running, and they expect to complete four more this year.

Glen, more interested in the creation of the centers, says he's "delighted" to leave the details of running the 125-employee organization to McArthur. "This company would never be where it is today if it [had not been] for her ambition and drive. Nor would it have gotten there if it hadn't had my experience as to how to get this kind of stuff going," says Glen. He is 65, and she is 41. She makes it clear he has been her mentor.

They're "like a zipper, fitting very nicely," says McArthur's administrative assistant, Lorri Schoeni. She thinks McArthur is willing to spend more time with employees to work out problems, while Glen is more directive and more interested in the big picture. But both styles get results. "I love the mix; I think it's great," she says.

President of the nearly $500-million-a-year magazine group of Meredith Corp., in Des Moines, Iowa, James A. Autry doesn't fit the picture of the hard-nosed, dispassionate male executive. "It's only marginally easier to be a man and a poet and a writer and be in corporate management than it is to be a woman and be in corporate management," he says. Autry is the author of *Love & Profit: The Art of Caring Leadership* (Morrow, 1991), a book of touching and often amusing essays and poems about management.

"Faulty perceptions have arisen that there's 'soft' management in which you are sensitive and caring and supportive,

Chipping Away At The Glass Ceiling

The Los Angeles law firm of Gartner & Young represents major corporations on labor matters, and its clients include American Telephone & Telegraph.

"What's particularly nice" about representing AT&T, says Lawrence J. Gartner, is that he often deals with women "who are now in management, based on my actions in the early 1970s."

He's referring to his earlier role as a member of the U.S. Equal Employment Opportunity Commission's legal team in a case in which AT&T agreed to open more doors to women and members of minority groups.

The landmark AT&T case caused employers throughout the country to review their employment practices and to improve job prospects for women and minorities.

While the small firm headed by Gartner and partner Naomi Young, a former National Labor Relations Board attorney, today represents management, they say that they are still committed to the goal of a more diverse workplace. The two lawyers say the companies they represent want to be good corporate citizens and want to comply with anti-discrimination laws.

Gartner says he thinks today's challenge of moving women and minorities into top management of American businesses is tougher than the battle 20 years ago over jobs and pay. Determining what makes a great chief executive and who can do the job, he says, is more difficult than defining an assembly-line job and filling it.

Despite that difficulty, there are signs that the glass ceiling—that invisible barrier that seems to keep women and minorities from advancing to top levels in companies of all sizes—is beginning to show some cracks.

Although women and minorities account for more than 50 percent of the American work force, they currently hold less than 5 percent of senior management positions. But some business people are cautiously predicting that women will break the glass ceiling in more significant numbers, perhaps by the end of this decade.

James A. Autry, president of the magazine group at Meredith Corp., in Des Moines, Iowa, believes that women's breakthroughs will come on an industry-by-industry basis, occurring faster, for example, in the media or cosmetics industries, where there is already a "critical mass" of women at lower and middle management. He suggests that those industries where the customer base is driven by women will move most quickly.

From Ellen Richstone, chief financial officer at Bull HN Information Systems Inc., in Billerica, Mass., comes a reminder that women have been attending graduate business schools in great numbers only since the 1970s. Most of today's corporate leaders would have gone to business school 30 years ago, when very few women were business students. "It takes time," Richstone says, admitting that, at age 39, she is an anomaly.

Kristine A. Morris, an executive recruiter for the Pasadena, Calif., firm of Cowen/Morris/Berger, says she's hearing fewer clients say, off the record, that they want "a 40-year-old white male." What she's more likely to hear clients say now, she says, is: "We're looking for the best person for the job. If that's a woman, if that's a minority, if that's an older person or a younger person, the [job] profile's going to adjust. We're going to define the position by the person who comes into the job."

Says Morris: "I find that tremendously encouraging."

The government is also getting into the act once again. Last year, when she was still secretary of labor, Elizabeth Dole launched what is known as the Glass Ceiling Initiative. Under it, the Labor Department has conducted pilot reviews of nine corporations to learn how they develop and promote women

and there's 'hard' management in which you're tough and draw the lines," Autry says. "I think a lot of the tough-guy stuff is really cowardly management." Managers who take the "hard" approach, he says, are "hiding behind a shell of aloofness and toughness rather than confronting their own emotions and feelings and rather than confronting other people honestly about theirs."

Perhaps the controversy over whether women's styles of leadership are better than men's or whether there's any difference at all is merely a signal that all leadership is becoming more feminized simply because it makes good business sense.

As researcher Judy Rosener points out, a high proportion of young professional workers is increasingly typical in organizations. "They demand to participate and contribute," she says. "In some cases, they have knowledge or talents their bosses don't have." She sees these kinds of workers as likely to respond more to interactive leaders.

"We're going to be so short of workers by the end of the decade, particularly knowledge workers and information-service workers, that companies that try to manage in the old top-down, hierarchical, drill-sergeant way are just doomed," says Autry.

Given that scenario, men will become freer to use so-called feminine tools of leadership without embarrassment, and women such as Ellen Richstone, who see that "being more male than male" is no longer effective for women leaders—if it ever was—will feel freer to use styles that are more natural to them as individuals, whether "soft" or "tough."

Based on the experiences that shaped their styles, both men and women business leaders, regardless of the size of their companies, have a lot they can teach one another—as well as the members of their own sex—about leadership. As they learn from one another, they can bring strengthened leadership abilities to their companies. Here are suggestions drawn from the comments of those interviewed for this article:

If you're a woman, consider being more decisive. This doesn't mean having a closed mind or being bullheaded, says Jim Autry. But he says that "decisiveness is an area that I think women could probably learn something from men about." Women often lack a sense of timing about when to stop building consensus and gathering information and to make a decision, Autry says.

Be a good listener. Kay Unger, who feels that women leaders tend to be better listeners than men, says: "I think listening is key because I learn from the people who work for me. I learn their ideas. If they know I'm open, I even hear the downside." This kind of information gathering, she says, enables her to keep making changes to improve the organization.

Each month Ellen Richstone meets with a different group of 15 or so nonmanagerial employees for round-table discussions. "They're designed for me to get to know people at levels I might never see, because it's a big organization," says Richstone. The purpose of the round-tables is communication, but Richstone makes a point of listening more than talking.

Listening doesn't always mean agreement, however. Autry says that "listen-

PHOTO: [illegible]

Women are ready *for the top, say lawyers Naomi Young and Larry Gartner.*

and minorities. The findings of the reviews are expected to be released later this spring.

In Congress in February, Senate Minority Leader Bob Dole, R-Kan., and Rep. Susan Molinari, R-N.Y., introduced the Women's Equal Opportunity Act of 1991. The bill includes a "glass-ceiling" provision to set up a commission that would look at corporate practices and policies that impede the advancement of women and minorities. It would also establish a national award to go annually to a business making "substantial efforts to promote opportunities for women and minorities to advance to top levels."

Demographic shifts and good business sense also dictate change. With the increase of women and minorities in the work force and the shrinking numbers of white males, says Naomi Young, women and minorities no longer can be kept out of the upper reaches of management.

"There are too many talented women; there are too many talented minorities," says Young. "Corporations need the diverse backgrounds and the diverse approaches to the business world that all these people can bring."

Kristine Morris cites another shift: Women executives are helping other women more. A decade ago, she says, "very, very few of the women in senior roles that I met with felt that they could do that without somehow jeopardizing their own position." Now senior women executives are more willing to mentor younger women and create informal networks for helping other women move ahead.

Under the pressure of all these changes and because women themselves continue to push for expanded opportunity, the glass ceiling is sure to start crumbling. When it does, will women be ready for the top leadership roles at which they finally have a shot?

"More than ready," answers Naomi Young. "They've been ready for a long time."

"The smart corporations will drop the glass ceiling," says Kay Unger, cofounder of Gillian, a New York fashion company. If they don't, their women will leave and start their own companies, and the corporations will "end up with some fabulous women in competition with them."

COVER STORY

ing to you doesn't impose upon me the responsibility to decide it your way—only to listen to you and for you to feel at least that you were heard."

Again, if you're a woman, add an ability to focus on short-term goals. Women, says Autry, seem to have a good long-term focus but less ability to lead on short-term crisis problems, such as a cost-cutting program or revenue-generating effort. Male managers, he observes, are "extremely good" at building enthusiasm in employees and coaching them through short-term crises.

Be willing to express your emotions, even to cry. That goes for both men and women, says Autry, who adds that when he stopped trying to bottle up all his emotions, he became a better manager. Women often are not as direct and honest as they should be, Autry thinks, partly out of fear of crying and being thought soft.

Leaders who cry because they're so proud of something their employees have done or because they have to give a negative appraisal reveal their own humanity, convey that they care about their employees, and inspire excellence, according to Autry.

"I am not talking about management for and by the wimps," he says in his book. "In fact, I am talking about the most difficult management there is, a management without emotional hiding places." If you're going to be on the leading edge of management, he continues, "you sometimes must be on the emotional edge as well."

Don't let your ego get in the way. Whether you're a man or a woman, says Jon Levy of Gillian, "the first thing you have to learn in leadership is that there's no room for ego." No one person makes a company successful; it's a team effort and a team attitude, he says. If something's good, "we all take credit. If it's bad, we all take the blame."

Jim Autry puts it another way in one of his essays. Try your best to get to the top if you want to, he writes, "but know that the more people you try to take along with you, the faster you'll get there and the longer you'll stay there."

Be yourself. Don't try to force yourself into a certain style that's not natural to you, even if you think it's expected of you. You can learn to draw on other leaders' styles, however, to enrich your choice of tools. Says Larry Gartner: "I build on my strengths in terms of my personality, and it basically comes down to what works best for me."

If you're a business owner hoping that women leaders will emerge in your company along with men leaders, keep in mind that you have to help bring them along.

The following suggestions from the Russell Reynolds Associates study can help you nurture the development of women leaders:

■ Look at both staff and line positions for potential leaders. Traditionally, leaders are drawn from line positions with profit-and-loss responsibilities. But the study found that just as many women in staff positions (support functions) as in line positions are leader-oriented.

■ Encourage mentoring for women. And create situations that facilitate informal, on-the-job advice for women. Women frequently feel shut out from these kinds of assistance to their career development, says the study.

■ Add women to your board of directors. The study found that leader-style women were twice as likely to work in companies with a woman on the board.

Whether a style is "masculine" or "feminine" doesn't matter, contends almost everyone, even those who think women represent leadership styles all their own. The best leadership style depends on the organization, says Judy Rosener. The International Women's Forum study "shows that a nontraditional leadership style can be effective in organizations that accept it," she says.

And if you're not convinced things are changing, consider that dazzling example of leadership, Gen. H. Norman Schwarzkopf. *Boston Globe* columnist Ellen Goodman recently described him as "caring but, well, commanding."

"This complicated character seems to synthesize conflicting and changing male images," Goodman wrote. "Introspective but decisive, caring yet competent, one of the guys and a leader? Not stuff that always comes in the same male package."

If caring leadership is good enough for the U.S. military, can more of it in business be far behind?

Business people increasingly seem to understand that giving a variety of leaders a chance to grow and shine is good for business.

"The good news is that there is an even richer than expected source of leaders among women executives," says Malcolm MacKay, managing director of Russell Reynolds Associates. "My belief is that the most competitive organizations will take leaders wherever they find them, no matter what sex they are. That's not only the essence of capitalism, it's the law of survival of the fittest." NB

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MANAGING

Taking A Turn For The Better

To save their recession-troubled companies, some business owners seek the help of turnaround consultants.

By James T. Drummond

John R. Tinnon knew he was in trouble when his company started losing more money in a month than it used to make in a year.

Graphic Converting Inc., a graphic-arts finishing business in Chicago, had grown quickly after acquiring three companies in the late 1980s and had become a major national specialty shop. "That growth is what got us in trouble," Tinnon says. "We were growing for the sake of growing, and we clearly didn't do our homework."

In August 1988, Tinnon recalls, the company began to deteriorate. "Without question, it was the most stressful time I have ever had. It was just brutal."

PHOTO: ©JOHN ZICH

When his firm was failing, *John Tinnon, left, brought in turnaround consultant Michael Silverman to help him save it.*

Fortunately, Tinnon sought outside help before it was too late. He hired a turnaround consultant, Michael A. Silverman of Skokie, Ill., who helped him make fundamental changes in his business. One of the most basic changes was to cut overtime wages, which were running out of control. Silverman convinced Tinnon to slow down and take fewer jobs. The business was chasing higher revenues at all costs—an expensive mistake, Silverman said.

Turnaround consultants are management advisers who specialize in helping business owners correct serious problems. Their work ranges from curing a relatively simple marketing problem to overseeing the liquidation of a company that cannot be saved. As the name suggests, the object is to pinpoint a troubled company's mistakes and cause the business to "turn around" to profitability. (Sometimes these experts are called "workout" consultants because their task is to make a troubled company work out in the long run.)

Since hiring turnaround consultant Silverman, says Tinnon, Graphic Converting has been restored to solid footing. After two years of losses, the company made money last year on $16.5 million in revenues.

As the economy has slipped into recession, more and more business owners have found themselves—as Tinnon did—suddenly facing unanticipated problems. But management consultants say too that sometimes a company's problems arise from errors by top management—such as an owner's compulsion for growth at breakneck speed.

When trouble appears, it's usually a financial crisis such as difficulty making payroll or paying bills. A firm simply runs out of cash. "But these financial problems are just symptoms," says Steven B. Most of Turnaround Team Inc., in New York. "The initial instinct is for management to work on the symptoms instead of the root problems."

Here are some management problems typical of troubled businesses along with solutions often implemented by turnaround consultants:

Growing too quickly: The late 1980s were years of extraordinary growth for countless companies. Many expanded into new markets and products, which often involved high start-up costs. "Most problems today are a result of too-high debt," says Ken Glass, a turnaround consultant in Canton, Ohio.

Solution: Concentrate on a core business and pull out of unprofitable sectors. So-called "right sizing" means shrinking the company to the size necessary to produce the most profitable core product or service.

Poor controls: Companies that have expanded rapidly into new products often don't know which are profitable and which are not. Poor cash-flow controls also are common. "Usually they are not thinking any farther than the next check," says Glass. "Typically, they manage their cash through the drawers in their desk." Glass says he has seen companies as large as $200 million in annual sales using seat-of-the-pants cash management. "That's kind of scary."

Solution: Set up a cash-management system that enables a manager to plan ahead and anticipate trouble. Conduct cost studies to determine if any products or jobs are losing money, and eliminate them. Try to measure each employee's productivity, and make any needed staff cuts according to productivity.

Not focused on profitability: Business owners can fall in love with fast growth and lose sight of profitability. Says Tinnon of Graphic Converting: "We were very aggressive in the '80s. If I could borrow the money, we were going to do the deal. We have since

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learned that there are other things in the business world besides growth."

Solution: Stick to what makes money. Tinnon remembers Silverman, his turnaround consultant, telling him he lacked "a fundamental zeal" for the bottom line. "That hit me pretty hard, but he was absolutely right," Tinnon admits. A cost study showed Tinnon's company was losing money on many small jobs it was taking just to boost gross revenues. On Silverman's advice, the company stopped taking smaller jobs and boosted prices. "We began looking at each job for profitability," says Tinnon. The company turned down $3.5 million in business but began turning a profit.

Here are some additional suggestions from consultants for troubled firms:

■ If a business decision was wrong, admit it. Know when to quit a project.

■ Don't let overtime costs get out of hand.

■ Monitor employee turnover. Check your ratio with industry averages. If it's high, conduct exit interviews to try to identify problems.

■ Have back-up financing available. Get to know bankers outside your core group of lenders.

■ Become aggressive about collecting receivables. If cash is a problem, renegotiate payment terms with vendors.

■ Communicate. Make employees, directors, and managers feel they are part of the team. Don't hide from your banker. A commercial-lending officer can be a good source of advice.

One of the major challenges facing a troubled company is to overcome the psychological damage that can come with business difficulties. A prolonged business crisis can cause some owners to become reclusive or even depressed. Others may react the opposite way, becoming excitable and denying there is any problem.

"An executive's whole thought process starts to get warped," says consultant Glass. "A chief executive may become officebound and build walls around himself," compounding the business's problems. Many entrepreneurs avoid seeking help, which they view as a sign of failure.

> **Companies that have expanded rapidly into new products "usually are not thinking any farther than the next check. Typically, they manage their cash through the drawers in their desk."**
>
> —Turnaround consultant Ken Glass

Psychological problems are so common in troubled businesses that some turnaround firms, such as Bahr International Inc., in Dallas, have a psychologist on staff to advise executives at client companies. "It's almost as if we are doing missionary work," says the firm's president, Charles Bahr. "If the top management is well, we can make the company well. But if [the managers] are not, then no amount of work will work."

When companies hit rough waters, employees in general become less communicative, says Glass. Managers may let bills pile up and fail to tell the boss, and "people start to panic." Department managers in troubled retail chains may start stocking up on inventory because they're afraid they will be cut off by creditors. This makes matters worse because excess inventory places further strain on the business. "The department managers are trying to get their job done," Glass says, "but nobody is taking care of the big picture."

Turning the reins over to a consultant can be a terrifying step for an entrepreneur, says Tim Finley of the Finley Group, a management consulting firm in

Charlotte, N.C. "Psychologically, nobody wants to give up their business," he says. Facing the need to call in an expert such as a turnaround specialist can be "one of the most traumatic experiences of their lives."

The consultant with the ability to lead is the most effective, says Finley. "In order to turn a company around, you have to earn the respect of the people you are moving around."

When should a business owner seek help? The answer for most businesses, according to Glass, is when bills are 45 days past due. If the business is caught in a cash-flow crunch that threatens its survival, it's time to seek help.

"Sometimes, surviving is the first order of business," says Silverman. Accordingly, turnaround consultants will usually do a "viability assessment"—an emergency diagnosis—to determine if the business can be saved. If it is clear that the answer is no, the services of a consultant who specializes in liquidations may be necessary.

Some consultants claim they can locate the causes of a company's problems with a minimum of detailed analysis. "It's a highly intuitive process—not an exact science," says one consultant. Indeed, if the problem is uncomplicated, its cause may be readily apparent. Other

In order to turn a company around, you have to earn the respect of the people you are moving around.

—Management consultant Tim Finley

consultants, however, take a more systematic approach and spend several months analyzing operations.

One of the best ways to improve performance is to boost the top line through better marketing, says Paul J. Stewart, a turnaround consultant in Palatine, Ill. Many businesses could benefit from an in-house telemarketing operation to contact inactive accounts.

Owners of troubled businesses often fall into the trap of lowering prices to boost volume. That's a mistake, says consultant Steven Most. One large company that hired him had decided to save money by switching to cheaper, recycled paper for its premium consumer product. It was false economy, says Most, because the firm's niche was as a premium brand, and its sales fell off when its product lost its premium identification. A troubled business should spend more, not less, to maintain a premium-brand reputation, he says.

For the owner of a troubled business, seeking protection from creditors under Chapter 11 of the bankruptcy law may appear to offer a solution, but experts generally advise that it's a step that should be taken only as a last resort. Says Robert Seidemann, director of corporate strategies for the accounting firm of Price Waterhouse in Cleveland: "For small and medium-sized [businesses], every other possibility should be tried before filing for Chapter 11."

Other turnaround consultants agree. "Bankruptcy is not a good option," says Tim Finley, in Charlotte. Through his firm's turnaround efforts on behalf of Jos. A. Bank Clothiers, a chain of retail clothing stores based in Baltimore, Finley now serves as chairman of the troubled company and has kept it out of bankruptcy court by negotiating with bondholders. In bankruptcy, the owner's equity in a business typically gets wiped out, he says, and it can be costly because of legal and other fees.

Nonetheless, there can be persuasive

PHOTO: ©GREGORY GAYMONT

Seeking help *can be "traumatic," says consultant Tim Finley, who serves as chairman of a retail clothing firm to help it avoid Chapter 11.*

reasons for filing for Chapter 11 protection, says Seidemann. Chapter 11 allows a company to void real-estate leases (which can help a retailer trying to shrink operations), and it can mitigate judgments from crushing product-liability lawsuits.

By filing bankruptcy, a company also may be able to extract itself from labor contracts or pension obligations, but this is by no means certain, says Seidemann. Chapter 11 also may be appropriate for protecting very secure, strong assets from liens that might be filed by unsecured creditors.

In addition, if a company has a buyer, a so-called "prepackaged" bankruptcy can be a good way to "cleanse" it of liens and unknown debts before the sale. A prepackaged bankruptcy is a streamlined, out-of-court agreement between a bankrupt company and its creditors designed to settle a company's obligations and thus make it attractive to a potential buyer.

Finally, bankruptcy court can buy time for the owner of a terminal business. Bankruptcy judges have routinely granted extensions of the deadline for filing a reorganization plan, sometimes allowing a Chapter 11 to drag on for several years. In the meantime, a business owner can often get court approval for a salary and can protect personal property and, in some states, one's personal residence.

Occasionally, a business owner may file bankruptcy and gain such protections while actually having no intention of reorganizing the business. "Some people stretch out the death of a business in this way," says Seidemann, "but the courts have gotten wise to this."

Instead of bankruptcy, Seidemann says, a troubled company first should try to work out a "composition" contract with creditors. This increasingly popular arrangement, he says, is a contract struck out of court in which creditors agree to a payment plan. The challenge, he says, is that all of a business's creditors must agree to it.

Any out-of-court settlement is cheaper than bankruptcy court because it avoids large legal fees, experts say.

A "moratorium" is another tactic a troubled business can use to buy time, says Seidemann. It's an agreement—whether on a handshake or on a more formal basis—in which creditors agree to put off collection efforts for a short period, usually six to nine months.

Involuntary bankruptcy filed by a firm's creditors under Chapter 7 of the bankruptcy code is to be avoided at all costs. If it's approved by the court, it means the business will be liquidated immediately to pay off creditors. "It's always better to file a voluntary Chapter 11," Seidemann says.

The best way to stay out of bankruptcy court is to maintain credibility with creditors, Seidemann advises. "If a business owner has burned a lot of bridges and lied to creditors in the past, it will be much more difficult," he says.

And always keep your bankers informed, Seidemann adds. "They are apt to find out what's happening anyway. It's better for them to find out from you." NB

Finding An Expert To Turn You Around

Picking a turnaround consultant requires time and patience, experts in the field suggest.

"You have to feel comfortable with the guy," says Christopher Beard, publisher of *Turnarounds & Workouts*, a biweekly newsletter on large corporate bankruptcies, produced in Chevy Chase, Md. Beard says a business owner should interview at least three candidates before choosing such a consultant.

Some turnaround consultants work on an hourly fee. Others insist on an equity stake or bonus tied to a predetermined level of performance. Either way, they are expensive. It can cost up to $20,000 just for an initial assessment. Hourly rates can easily top $300 for an experienced consultant. An arrangement in which a consultant takes full control of a company for nine months can cost $500,000 plus a bonus.

Some consultants, such as Ken Glass, a turnaround specialist in Canton, Ohio, require full operating control. He encourages a business owner to take a vacation for several months. Others, such as Michael A. Silverman, in Skokie, Ill., prefer to work as a team with a business owner. "My job is to give the owner a vision of success and convince him he has the power to make the changes," says Silverman.

Finding a good turnaround consultant can take time, since such experts don't advertise in the Yellow Pages. Not that there aren't plenty of them out there; hundreds of unemployed bankers and executives have hung out a shingle. "Anyone who has ever stretched a trade creditor or laid off employees has become a turnaround consultant," says one such specialist.

Ask your banker or accountant for recommendations on turnaround consultants. Network with other business owners. Talk to your lawyer.

The Turnaround Management Association sells a directory of its 450 members for $195. Write to the association at 14800 Conference Center Drive, Westfield, Va. 22021. Or call (703) 818-2202.

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SPECIAL REPORT

Vehicle Leasing: Plenty Of Options

These experts' tips—and the experiences of small firms—can help you decide if you should lease your company's cars and trucks.

By Julie Candler

Many business owners looking for ways to put the brakes on their ever-increasing costs of transportation, particularly during the recession, are deciding their companies no longer need to own the vehicles they use.

More and more companies are leasing the cars, vans, and trucks they need or are having employees drive their own cars and then reimbursing them for their expenses.

Either approach frees company funds for other purposes. Moreover, leasing offers certain tax advantages for companies, and it's an arrangement that can be tailored to suit almost any business's needs.

The effectiveness of a leasing arrangement can depend in part on the company's own decisions about how and what to lease. For example, by choosing vehicles with an eye toward their resale value rather than just their price tag when new, a firm may save in the long run. A higher-priced car that retains much of its value after the year or two of a typical lease arrangement may cost a firm less than a car that has a lower sticker price but a far lower value at the end of the lease.

"The largest dollar loss [for companies] results from the holding cost—the cost of acquiring the vehicle and what is returned at disposal time; that cost is increasing," says Adlore Chaudier, director of consulting services for Runzheimer International, a Rochester, Minn., firm that tracks transportation costs.

Although some small cars don't hold their value, they generally are more economical to operate than larger ones. Fortunately for drivers of these vehicles, many of the smaller cars of the 1991 model year are quieter, more comfortable, and more powerful than the "econoboxes" of the 1970s. Late-model small cars have more passenger and luggage space than their predecessors, and they also have smoother powertrains, more accessory options, and more sophisticated suspension systems.

Another way to reduce holding costs is to purchase vehicles with a lot of options. In a survey by the National Association of Fleet Administrators (NAFA), based in Iselin, N.J., 70 percent of fleet managers said that this year they are ordering more options on their vehicles. The heavily loaded cars continue to bring the best resale values.

Minivans also bring more than passenger cars at resale, says Linda Martin, service support manager at Whittle Communications L.P., in Knoxville, Tenn. The firm, which publishes magazines and produces videos and other products for specific markets such as schools, has a nationwide fleet of 300 vehicles. "I have never had a car in my fleet," says Martin. Whittle's drivers prefer minivans for delivering materials, and most of the company's vehicles are Chevrolet Astrovans.

Martin contracts through Automotive Rentals, Inc., a major leasing firm based in Maple Shade, N.J., and prefers open-end deals. Under its contracts, Automotive Rentals sets a residual value for each vehicle when it is leased. If resale by the leasing company at the end of the lease brings less than the residual value, Whittle pays the difference. If the vehicle sells for more than the residual, however, Martin's firm pockets the profit.

Some leasing arrangements, on the other hand, are closed-end deals. In a closed-end lease, the lessor returns the vehicle and pays no additional charges at the end of the lease, but the monthly fee under such an arrangement is higher. "Closed-end leases ask the leasing firm to assume the risk of depreciation," says Chaudier. "If anything, they will overcharge to cover themselves."

Some fleet managers say they have no problems with resale values of their cars because the leases come with excellent maintenance programs. ARI gives each driver of its cars at Whittle Communications a fleet charge card that can be used at national service outlets such as Goodyear, Firestone, or individual auto dealers' shops.

The driver also receives a book of coupons acceptable as payment for routine servicing every 6,000 miles. "If a driver misses a coupon interval, the company follows up," says Martin.

The cars then are returned to the leasing company at the end of a predetermined time or mileage. "When we turn in our cars," Martin says, "they are clean, with no body damage."

Another company that has found resale values of its leased vehicles holding up is Sunkist Growers, Inc., in Sherman Oaks, Calif. Patricia Mueller, fleet and

Sunkist Growers' leased vehicles *are later offered for sale to employees, benefiting both company and buyers, says fleet supervisor Patricia Mueller.*

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garage supervisor for the company, leases cars, vans, and trucks for Sunkist's 180-vehicle fleet through GE Capital Fleet Services, in Eden Prairie, Minn.

After Sunkist has used the vehicles, Mueller sells them to employees and returns an agreed-upon amount for each car to GE Capital Fleet Services. If the car sells for more than the agreed-upon amount, Sunkist keeps the difference. Mueller says the cars typically are sold for more than their wholesale value but less than their retail value.

"If the driver doesn't want to buy it," Mueller explains, "I post its availability in the office, and another employee will want it." Cars that are not sold are sent to automobile auctions. "Last year," she says, "I only had two cars go to auction, and they were cars I had problems with."

Chaudier says leasing firms typically sell used cars through auctions, which usually bring lower prices. When choosing a leasing firm, he advises, find out the percentage of vehicles the firm resold to company employees, or through auction, or to car dealers or wholesalers. The higher the percentage of cars sold to clients' employees, the stronger the indication that the leasing company is willing to let its clients offer such a program.

Selling vehicles to the employees who have driven them not only is viewed by many as a plus but also can have a cost-saving benefit for the employee's company, says Patricia Mueller. "Most employees are good about getting maintenance work handled regularly because they know they are going to buy this vehicle." Moreover, safe cars and employees' good driving records can save a company money, says Whittle Communications' Martin, who recently became NAFA's co-chair for safety. Martin says a safety program shows a company's insurance agent that the firm is taking steps to control costs. It also shows employees that the firm cares about them.

Safety programs, Martin says, should stress the use of seat belts and shoulder harnesses and should discourage driving after drinking.

At Whittle, Martin says, "you are fired instantly if you receive a ticket for driving under the influence or you are found driving after drinking." Drivers with more than three moving violations in a two-year period must attend classes on safe driving. Her company's safety record improved after it began checking job applicants' driving records.

Firms that prefer to own their fleets, Chaudier says, should trade in older cars for former rental cars now available through dealers. Most rental vehicles are resold after 25,000 to 30,000 miles. The almost-new cars have been flooding the market and softening the prices of both new and used cars.

Car-rental companies often buy cars with a guarantee from the manufacturer that it will buy the cars back when the rental company is finished with them. Such cars then are resold to dealers, which in turn sell them as used cars. "For $11,000 or $12,000," says Chaudier, "you might get a car that sells new for $15,000."

PHOTO: ©JEFF LAWRENCE

High mileage *can be a bar to leasing. Paul Kedzior of President Tuxedo says ownership is more economical for trucks accumulating 80,000 miles a year.*

Chaudier notes, however, that many companies prefer not to have used rental cars in their fleets because of possible maintenance problems. He points out that "the biggest dollar loss is the cost of downtime for an employee."

Instead of leasing cars or owning a fleet, some firms are switching to a system of paying a monthly allowance and a cents-per-mile operating cost to employees who drive their own cars for business use. A typical arrangement, says Chaudier, "might be $300 per month and 11 cents per mile."

NAFA cites studies that show that when employees use their own cars for business, it's more costly for the company.

Employees' views on using their own cars are mixed; some dislike subjecting their own cars to excessive wear, while others, according to Chaudier, "like getting money every month" for their driving expenses and also like to choose the car they drive for business.

Companies that use light, medium, or heavy-duty trucks are giving more consideration to leasing. "We would be interested if there were some lease programs out there that would allow for the heavy mileage we put on our delivery pickups," says Sharon Sheldon, corporate controller of President Tuxedo, Inc., in Warren, Mich.

The company's top executives drive Lincoln Continentals, obtained with closed-end leases through All Car Leasing, Inc., of St. Clair Shores, Mich. Mileage on the Continentals is limited to 60,000 during the three-year lease period; there is a charge for mileage beyond the limit.

Meanwhile, for delivering rental tuxedos, the company buys two or three replacement trucks per year for its fleet of 12 pickup trucks, which have conversion tops equipped with hanger racks. Each vehicle travels 60,000 to 80,000 miles a year, delivering wedding and prom clothes to the company's 25 stores in Michigan and five in Ohio. "Right now," says the company's production manager, Paul Kedzior, "we think the cost of leasing trucks that accumulate so many miles would be more than the cost of ownership."

"If they are running up to 80,000 miles a year," says S. Craig Bahr, president of All Car Leasing, "working out a lease would be tough. First, I would have to see what they are paying for their trucks now and what they are getting for them at the end."

A recently introduced option for small companies is the Easylease program offered by Ryder Corp.'s Vehicle Leasing and Services Division, based in Miami. The arrangement is tailored for small

firms that transport light loads on local delivery routes, with each vehicle being driven no more than 15,000 miles a year. The program provides used vans and straight trucks and basic regularly scheduled maintenance—everything that is covered in a full-service Ryder lease except washing, substitute vehicles, and fuel. (For information on the Easylease program, call 800-327-3399.)

The Ryder program is an example of the widening of leasing choices for truck users. Another option is to lease trucks and operators in a single package. For businesses that regularly ship full truckloads long distances, companies such as which supply equipment, drivers, system management, and distribution design.

Then there are haulers who belong to nationwide leasing networks of long-haul trucks. Tony Pope, of Claremont, N.C., is president of Catawba Transportation Group, in Claremont. Last year he was honored by the North Carolina Chamber of Commerce as Small Business Person of the Year. His company owns 235 tractors—most of them Freightliners—in the Class 8 gross vehicle weight category (above 33,000 pounds) as well as 350 trailers. He hires drivers for the half of the fleet that operates through Amtralease of Chesterfield, Mo., to ship full truckloads to 48 states.

PHOTO: T. MICHAEL KEZA

For transporting meat *to Maryland-based Murry's stores, distribution director Mike Nasif, right, has shifted to leased trucks—and has cut costs.*

CRST, Inc., of Cedar Rapids, Iowa, offer fleets of long-haul trucks. Most of CRST's 850 trucks are Navistars, and they are supplied with drivers for door-to-door service. CRST uses two-person driver teams and guarantees coast-to-coast delivery in less than 60 hours.

"We are providing standard equipment and two of our own employee drivers on every trip," says Michael M. Wood, CRST's executive vice president and chief executive officer.

In the past, there were separate driver-leasing and equipment-leasing companies, Wood says. "Now we have it in a total package, eliminating a lot of problems. We take care of licensing, fuel-tax reporting, and buying the fuel—all the problems of operating trucks. In the long run, it's less expensive than buying a tractor and trailer and hiring a driver to run between, say, a plant and a distribution center."

Another increasingly popular practice is the use of dedicated contract carriers,

Amtralease, NationaLease, and similar groups form reciprocal networks of independent lessors. They offer full-service truck renting and leasing, providing one another with services to keep trucks operating no matter where they encounter trouble. If one of Pope's trucks breaks down in California or Colorado, for example, Amtralease dispatches a replacement or repair service quickly.

"The biggest factor in trucking economy," says Pope, "is the driver and the techniques he uses. The best way to aid a driver is to use the new electronic engine controls. They help drivers control their habits. We are using a Caterpillar 3176 engine with full electronics, and it is saving on fuel."

Pope advises businesses to look at the cost per unit of shipping. It might cost \$1.50 a mile with a 53-foot trailer and \$1.45 a mile with a 45-foot trailer, but the \$1.50 could be less expensive if it hauls a lot more units.

"I would also advise businesses to align themselves with a reputable shipper and work as partners, instead of jumping from load to load according to whoever is cheapest," Pope says. "Once a company gets to know you and your products, they can work out economies of scale. They might figure out a better way of stacking that can allow you to haul more units per load."

The shipping solution for firms like Murry's, Inc., a meat company based in Forestville, Md., is to lease its 31 tractors and 45 refrigerated trailers from a truck manufacturer's leasing outlet. In 1986, Mike Nasif, director of distribution for Murry's, chose full-service leasing from PacLease, a division of PACCAR, Inc., of Seattle. The lessor provides maintenance, licensing and permitting, fuel-tax reporting, and driver-safety programs.

Nasif says that as a result of his study of costs during the first three years with PacLease, "we found that to continue to own and maintain equipment would have cost us about \$100,000 per year more during that period."

The leased vehicles haul everything from Cornish game hens to pork chops, delivering the products to 120 East Coast stores. Nasif cites his time-saving benefit. "If a driver has a breakdown, he calls PacCentral [a PacLease service], and they handle it. I don't know about it until Monday morning.

"To companies looking to economize," says Nasif, "my advice is to bring in a firm like PacLease and have them see what they can do."

Leasing both trucks and drivers is the solution for Richard LaFond, owner of LaFond Express, of Trenton, Mich. His fleet consists of 75 Class 8 trucks operated by their owners, who take care of their own maintenance, insurance, and other costs. "It's almost impossible," says LaFond, "for the small operator to purchase his own trucks. The cost is too great."

With truck leasing and rentals increasing yearly, Larry Miller, president of Ruan Transportation Management Systems, a leasing firm in Des Moines, Iowa, sums it up: "Pride of ownership is a luxury. It's the old way of doing business."

In a recently issued statement, the Runzheimer company forecast that "as long as the prices of cars, trucks, and vans continue to rise, leasing will grow."

By 1995, some experts have said, one of every two vehicles made will be put to use by a car-rental company or by a business or an individual under a leasing arrangement. NB

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America's new Blue Chip companies are our country's small businesses. It is these enterprises that are creating the new jobs and providing much of the innovation necessary for our nation to compete.

Connecticut Mutual Life Insurance Company, the U.S. Chamber of Commerce, and NATION'S BUSINESS salute all the companies that participated in the Blue Chip Enterprise Initiative.™ In applying for the Blue Chip Enterprise Award, they've shared their stories of competing in today's challenging marketplace. And we'd like to honor those companies that demonstrated the highest levels of quality, competitiveness and leadership and that have been named this year's Blue Chip Enterprises.

More important, we thank all the applicants for sharing their methods of success for the benefit of others. This exchange can provide a critical edge in strengthening our country's competitive position.

This is no mere awards program. With the support of 200 volunteer judges and more than 700 Chambers of Commerce, the Blue Chip Enterprise Initiative is truly an ongoing effort to extend the quality and competitiveness of American business. These participating local chambers will be sharing the insights gained through this award search with their members throughout the year.

Small business is the engine that drives the American economy. And we salute the initiative and perseverance it takes to run a business in an increasingly competitive marketplace.

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Small Firms That Wouldn't Quit

The ability of these entrepreneurs to overcome adversity is being recognized by the Blue Chip Enterprise Initiative program.

It could not—by any stretch of the imagination—be called a grand opening.

First, heavy rains kept customers away from the new Heidi's Family Restaurant in Carson City, Nev. Then floodwaters ruptured gas-supply lines in the area, and the business had to close for a week while service was restored.

Then an out-of-control truck destroyed the front of the building. And the California company that had insured the truck had gone bankrupt. At a time of already serious cash-flow problems, it would take months to obtain payment for the $30,000 in damage from a California fund covering such situations.

Today, the company has three restaurants and a bakery, and its sales, which totaled $320,000 in 1987, are expected to exceed $2.2 million this year.

How that company overcame its disastrous beginning and achieved such success is just one of the 800-plus success stories described in entries in The Blue Chip Enterprise Initiative, a new program to recognize small businesses whose unique achievements can teach and inspire other entrepreneurs.

The initiative is sponsored by the Connecticut Mutual Life Insurance Co. and endorsed by the U.S. Chamber of Commerce and *Nation's Business.*

Thus far, 201 entries have been chosen as state designees, and the top 51 in that category—one from each state and the District of Columbia—were sent to a national panel of nine judges for the selection of four national designees.

The terms "competition" and "winners" are not being used in the Blue Chip Enterprise Initiative. The purpose is to identify role models from which all entrepreneurs can learn, not to pit small businesses against one another. Timothy Maurer of Connecticut Mutual, director of the Blue Chip Initiative, says that each entry relates "a unique story of success" and that all the entries collectively "testify to the resiliency of small businesses everywhere and the need for a program to recognize and share their strategies for success."

Resiliency in the face of seemingly overpowering setbacks is a common theme among the businesses that have been designated for state honors and are under consideration for national recognition. The survival of many was threatened by such varied causes as destructive fires, floods, the collapse of markets, the unexpected loss of key leaders, and the sudden onset of overpowering competition.

PHOTO: ©VAN YATES

Blue Chip Enterprise *firms such as Heidi's Family Restaurants of Nevada, with Don Thayer as president, overcame major setbacks en route to success.*

A Michigan firm experienced within seven months the devastation of its dry-warehousing complex by flood, the sudden death of the chief executive officer who was directing the recovery program, and the destruction by fire of its refrigerated-warehousing facilities and corporate headquarters.

When oil prices declined sharply in the mid-1980s, a firm serving that industry described its situation this way:

"[The company] was faced with the major segment of its market in total collapse, with massive business closings, with increasingly delinquent accounts, with frightened employees who feared for their jobs, with panic-stricken lenders, and with a massive amount of debt to amortize in a declining economy."

Along with details of the strategies that enabled those and other companies to surmount such threats from the outside, many entrants conceded that their problems were of their own making.

The head of a Chicago company that supplies the auto industry says that in the early 1980s, "our deliveries were late, our technological support reactionary, our pricing high, marketing hollow, and our quality was, at best, mediocre. The environment in which we did business was becoming a world market, and our customers began looking to foreign suppliers."

In some cases, solutions to setbacks meant drawing on the dedication of employees, customers, suppliers, and others to keep a company alive while it recovered from a fire or other disaster. In others, it meant massive changes in production and marketing strategies.

The specifics of how companies overcame their particular brand of adversity will be made available through the Blue Chip Enterprise Initiative in both broadcast and print formats so other companies can learn from the experiences of the successful entrepreneurs.

Names of the four national designees and the other 47 state designees will be announced at the annual meeting of the U.S. Chamber of Commerce on April 29.

These are the state designees, with the company chosen for the national judging listed first (the nature of the business is described only when it is not evident from the company name):

Alabama
American Calculator and Computer, Birmingham; Lance Garment Corp., Red Bay; SEATEC, Inc. (design/engineering), Warrior; Thermal Corp. (heating elements), Madison.

Alaska
Mila Administrative Services (temporary help), Alaska Silk Pie Co., Pre Cast Co. (concrete products), and Transformations (interior design), all of Anchorage.

Arizona
Microtest (LAN devices), Phoenix; Artisoft (hardware/software), Tucson; Competitive Engineering, Inc. (machine parts), Tucson; Rio Salado Bank, Tempe.

Arkansas
F.M. Corp. (structural plastics), Rogers; Arkansas Printing, Pine Bluff; Will Acklin, Inc. (funeral services), Little Rock; World Travel, Inc., Searcy.

California
Minarik Electric Co., Glendale; Advanced Network Design (long-distance buying group), La Mirada; Golden Rainbow (children's apparel), San Francisco; Woodland Village School, Agoura.

Colorado
Steam Way International (cleaning equipment), Denver; Azteca Inc. (restaurant), Littleton; Carts of Colorado (service equipment), Commerce City; Miaco (technical consulting), Englewood.

Connecticut
Seitz Corp. (mechanical drives), Torrington; Enterprise Builders, Avon; Noelle The Day Spa, Stamford; Robustelli Corporate Services, Stamford.

Delaware
Summit Aviation, Inc., Middletown; AstroPower, Inc. (energy conversion), Newark; Business Information Technology (consulting), Wilmington; Flapdoodles, Inc. (children's apparel), Newark.

Florida
R.W. Summers Railroad Contractor, Bartow; Benedict Advertising, Daytona Beach; Holiday Builders Inc., Melbourne; Paper Roll Products of Florida, Boyton.

Georgia
T.E.A. (technical personnel service), Atlanta; Associated Paper, Inc., Conyers; Onsite Engineering & Management, Norcross; The Championship Group (special events), Atlanta.

Hawaii
G.B.C., Inc. (packaging); Galaxy Business Products, Inc.; J.N. Productions (television films); Pacific Media Ltd. (direct mail), all of Honolulu.

Idaho
Scientech, Inc. (technical services), Idaho Falls; ECCO (alarms), Boise; Melaleuca, Inc. (sales/cosmetics), Idaho Falls; Norco (wholesale welding), Boise.

Illinois
KL Spring & Stamping Corp., Chicago; Dewar Information Systems, Westmont; Precision Extrusions, Bensenville; Thompson Electronics Co., Peoria.

Indiana
Oil Technology Inc., Hobart; Rivar's Custom Show Apparel, Albany; Shelby County Farm Bureau, Shelbyville; Time Low Corp. (petroleum products), Valparaiso.

Iowa
MidAmerica Savings Bank, Waterloo; Carriage House Meat & Prov. Co., Ames; Iowa Laser Technology, Cedar Falls; T&K Roofing, Ely.

Kansas
Kelly Truck Line, Inc., Pittsburg; Flint Hills Foods, Inc., Alma; Kropf Lumber Inc., Hesston; Paul MacDonald Chevrolet, Inc., Hays.

Kentucky
Air Relief Inc. (compressor parts), Mayfield; Big Meadow Oil Co., Knob Lick; World Tower (radio towers), Mayfield; Zoeller Co. (sewage pumps), Louisville.

Louisiana
Moody-Price Inc. (industrial instrumentation), Baton Rouge; AMBAR (drilling mud and completion fluids), Lafayette; B.C.P. Technical Services, Gretna; Marine Shale Processors (hazardous-waste apparatus), St. Rose.

Maine
Creative Apparel, Inc., Belmont; IMPACC (work-injury prevention programs), Bangor; Sunday River Skiway, Bethel; Thos. Moser Cabinetmakers, Portland.

Maryland
Pevco Systems International, Inc. (pneumatic tubes), Baltimore; Forms Direct (direct mail), Frederick; KOH Systems, Inc. (administrative/technical services), Rockville; Spectra (printed circuit boards), Clarksburg.

Massachusetts
Lifeline Systems, Inc. (health care), Watertown; Coghlin Electric, Worcester; Flight Time Corp. (charter service), Chestnut Hill; Octocom Systems (data-communications networks), Wilmington.

Michigan
The TLC Group (logistics services), Zeeland; ACI Consolidated (archery equipment), Monroe; Royal Oak Industries (train components), Royal Oak; TRIAX (rail-car devices), Benton Harbor.

Minnesota
Milton Seifert & Assoc. (health care), Excelsior; Blue Star Marketing (computer assembly/resource guide), Minneapolis.

Mississippi
Delta Wire Co., Clarksdale; Carriage House Restaurant, and Riverside Central Services (nuclear parts), both of Natchez; 20/20 Eye World, Greenville.

Missouri
VCW, Inc. (service), and Curry Industries (transportation brokerage), both of Kansas City; Delta Dental Place of Missouri, St. Louis; Tiger Air Express (airport shuttle), Columbia.

Montana
Culligan Water Conditioning, Havre; Big Sky Carvers (wood art), Bozeman; Lynch Flying Service, Billings; Sharples Jewelry, Chinook.

Nebraska
Senior Market Sales (insurance), Omaha; Eilers Machine & Welding, Inc., Lexington; Henke Machine (feed processing), Columbus.

Nevada
Heidi's Family Restaurants, Carson City; ABRIS (aerospace engineering), Reno; Custom Asphalt Paving Inc., and Scenic Airlines, both of Las Vegas.

New Hampshire
Stonyfield Farm (yogurt), Londonderry; R.M.C. Research (education), Hampton; R.P. Johnson & Son, Inc. (building materials), Potter Place; S.S. Company (cruise-boat rides), Portsmouth.

New Jersey
Maresco International (materials-handling equipment), Bridgewater; Harmony Schools, Princeton; Tony & Madonna, Inc. (restaurant), Ringwood; Vankel Industries Inc. (research supplies), Edison.

New Mexico
Fox Manufacturing (furniture), and Azuelas Woods Inc. (picture-frame moldings), both of Albuquerque; Catered Affair Restaurant & Catering, Artesia; and Watson Truck & Supply, Inc., Hobbs.

New York
Homarus, Inc. (seafood smokehouse), Mt. Kisco; Adirondack Forest Industries, Galway; Beverly P.A.C. Limited (wholesale housewares), Utica; Marsellus Casket Co., Syracuse.

North Carolina
Trailco Leasing, Greensboro; Eastern Delivery Service, Inc. (trucking), Wilmington; Jacumin Engineering & Machine, Icard; NEO Corp. (environmental consulting), Waynesville.

North Dakota
Richtman's Printing, Fargo; Capital City Construction, and Meyer Broadcasting Co., both of Bismarck; Radio & TV Equipment, Inc., Fargo.

Ohio
Norton Manufacturing Company, Inc. (machine crankshafts) Fostoria; City Machine Technologies, Inc., Youngstown; Market Vision Research, Cincinnati; The Will-Burt Co. (metal fabricating), Orrville.

Oklahoma
Kiamichi Railroad Co., Hugo; and Frontier Express, Inc., Hilton Inn West Inc., and The Trust Co. of Oklahoma, Inc. (investment management), all of Oklahoma City.

Oregon
Cycle Sports of Salem, Salem; Cascade Technical Staffing, Beaverton; Landscape Industries, Roseburg; Rod & Reel Restaurant, Wedderburn.

Pennsylvania
New Pig Corp. (industrial absorbents), Tipton; American Tech Manufacturing Corp., Glenolden; Hi-Tech Cable Connection, Inc., Reading; Industrial Restorations, East Petersburg.

Rhode Island
Norton's Shipyard & Marina, Inc., East Greenwich; Coddbarrett Associates (graphic design), Providence; East Greenwich Photo, East Greenwich; Ocean State Coord. Health Services, Warwick.

South Carolina
Ballard & Sons of Charleston (asbestos removal), North Charleston; Atlantic Publication Group Inc., Charleston; Control Management, Inc. (engineering/contractors), West Columbia; M.B. Kahn Construction Co., Columbia.

South Dakota
Austad's (mail-order catalog), Sioux Falls; A&A Enterprises (automotive repairs), and Air Monitoring Equipment, both of Rapid City; Korczak's Heritage, Inc. (restaurant), Crazy Horse.

Tennessee
Continental Traffic Services (freight billing), Memphis; Gary A. Taylor Construction Co., Jackson; Metro Home Health Care, Inc., Memphis; Touchstone, Inc. (locomotive radiators), Jackson.

Texas
Wallace Co., Inc. (wholesale industrial supplies), and Coastal Chemical Co., Inc., both of Houston; Hatfield & Co. (wholesale industrial equipment), Mesquite; Jesse Fence Co., Inc., Houston.

Utah
CompHealth, Salt Lake City; Lifetime Products, Inc. (basketball equipment), Clearfield; Systems Connection (computer accessories), Orem; Pride Transport, Inc., Salt Lake City.

Vermont
The Olympiad (health club), South Burlington; Bread Loaf Construction Co., Middlebury; K-D Associates (environmental engineering), Burlington; Tribal Enterprises Inc. (reupholstering), South Burlington.

Virginia
BTG Inc. (computer consultants), Vienna; Telecommunications Concepts, Inc., Springfield; Travel Department, Inc., Arlington; Vanguard Research, Inc. (systems engineering), Fairfax.

Washington
Stockpot Soups, Redmond; Builders Hardware & Supply, and Pacific Supply Co. (janitorial supplies), both of Seattle; Valley Rentals, Inc. (construction equipment), Longview.

Washington, D.C.
Trans America Telemarketing; Capitol Entertainment Service (tour operator).

West Virginia
Farr Manufacturing & Engineering Co. (industrial furnaces), Williamstown; Athletic Technology Inc. (football equipment), Vienna; Medical Financial Consultants, Parkersburg; Walhonde Tools Inc. (rental), South Charleston.

Wisconsin
Supportive HomeCare, Oshkosh; Al's Swedish Restaurant, Sister Bay; Appleton Lamp Lighter (lighting fixtures), Appleton; Venture Graphics, Waukesha.

Wyoming
Eagle Bronze (bronze casting), Lander; Anderson Highway Signs & Supply, Mills; CompuMed, Inc. (medication dispensers), Meeteetse; Inter-Mountain Pipe Co., Casper. ■

POSTWAR REPORT

Reservists Regain Jobs And Benefits

By Roger Thompson

Many employers have gone above and beyond legal requirements in providing pay and benefits to the more than 220,000 reservists called up for duty in the Persian Gulf. And Congress has enacted a new package of benefits for returning veterans and reservists in a gesture of thanks for a job well done.

Although fighting in the Gulf War ended with a Feb. 28 cease-fire, it may be September or later before all the reservists return home. Under one of the few legal requirements placed on employers regarding reservists, their employers must offer them reinstatement to the jobs they had when they were called up.

Recent surveys by major benefits consulting firms show that most employers have adopted generous policies toward their called-up employees. Although not required by law to do so, most employers are keeping active-duty reservists on the payroll and maintaining all or some of their benefits.

About half of all employers have continued pay for reservists, according to a survey by the New York-based William M. Mercer firm. But most limit the pay continuation to six months. Employers who keep reservists on the payroll typically reduce their checks by the amount they receive from the military.

In addition, many employers are continuing medical coverage for activated employees and their dependents even though reservists or members of the National Guard are covered by a military health plan, and their dependents are covered under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS).

In a January survey of 37 large employers, Hewitt Associates, a benefits consulting firm based in Lincolnshire, Ill., found all but three were offering some type of health-care continuation arrangements for employees, or dependents, or both groups. Of 49 companies surveyed by the New York-based Towers Perrin firm in February, 43 said they would continue health-care coverage for dependents, up from 27 when the same employers were surveyed in August.

If health coverage is discontinued at any point, employers subject to the Consolidated Omnibus Budget Reconciliation Act (COBRA)—those with more than 20 employees—must offer to continue the policy if the employee pays the premium costs.

In cases where health insurance was discontinued, legislation enacted in February prevents employers from treating returning reservists as new employees with regard to health-plan waiting periods and pre-existing conditions. The legislation—the Soldiers' and Sailors' Civil Relief Act Amendments of 1991—also protects reservists and their families from being evicted for not paying their rent if the rent was under $1,200 a month.

When reservists resume their jobs, some employers may have to determine whether their medical policies pay for physical or emotional injuries incurred while the employee was on active duty. Most medical plans and insurance contracts restrict coverage for war-related injuries, but these exclusions often are vague and may not provide adequate guidance for employers, says Mercer.

The Gulf War's quick, successful conclusion prompted Congress to expedite approval of a package of benefits for military personnel. The so-called Desert Storm bill cleared both houses of Congress on March 21 and was signed by President Bush on April 6.

The newly enacted law:

- Increases monthly education benefits to $170 from $140 for reservists and National Guard members. Monthly payments also increase for enlisted personnel. The increases are effective for two years beginning Oct. 1, 1991.
- Continues military medical coverage for one month for discharged reservists and their families not covered by a private health plan.
- Doubles to $6,000 the death benefit for families of those killed in the war and doubles to $100,000 the group life-insurance benefit.
- Increases family separation pay to $75 a month from $60 a month, effective

PHOTO: CHERMAN KORDUAN—BLACK STAR

Troops returning home *after being called to active duty because of the Persian Gulf War will find their jobs and benefits waiting for them.*

Most employers have generously maintained called-up reservists' pay levels and benefits. Here are answers to questions about employers' obligations toward those returning from active duty.

Jan. 15—the day before allied bombing began—until 180 days after the end of the war—a date to be formally declared by the president or by the Congress.

■ Raises imminent-danger pay, or combat pay, to $150 a month from $110 a month for those serving in the Gulf War. The increase would be effective from Aug. 1, the day before Iraqi troops invaded Kuwait, until 180 days after the war's end.

Employers inevitably will have numerous questions about their obligations to those returning from military service. The following frequently asked questions and their answers have been provided by the law firm of Jackson, Lewis, Schnitzler & Krupman, which specializes in labor and employment law and has offices in 12 cities nationwide.

Readers who have specific questions on these topics are advised to consult their own attorneys.

What are my general obligations to reservists who want their jobs back now that they have returned from service in the Persian Gulf?

Under the Veterans' Reemployment Rights Act, reservists and veterans returning from active duty who apply for re-employment with their preservice employer are entitled to re-employment and restoration of pay, seniority, status, and any other conditions of employment as if they had been employed continuously.

In other words, all benefits (pension, vacation time, sick days, etc.) based on length of service must be restored, and the employment status (classification, eligibility for promotion, etc.) must reflect the position, hours of work, and other conditions employees would have experienced had they not been ordered to active duty.

What if I had to fill a reservist's position while that person was serving in the Persian Gulf?

The law gives reservists returning to civilian status the absolute right to their old jobs regardless of whether they were replaced. Thus, the reservist is entitled to return to the preservice position even if a replacement now occupies the job.

While a reservist was serving in the military, our company had a series of layoffs that would have affected him if he had been here. Am I still required to take him back?

This is a circumstance under which an employer may wish to balance legal and moral obligations. Technically, there is no legal requirement to take the employee back, since a reservist or veteran is subject to termination or layoff based on a legitimate reduction in force or a bona fide layoff to which the individual would have been subject. This is true despite the interruption of employment caused by the individual's military service.

However, employers should approach such a situation with an eye toward the unique circumstances of the Persian Gulf War and other considerations related to the individual case.

While a reservist was on active duty, other employees received a general wage increase. Must I give the same increase to the returning reservist?

Yes. The wages of a returning veteran or reservist must reflect what the person would have received absent the military duty.

I have not heard from several employees who were called to active duty. I assume they have returned home. Should I contact them?

You may wish to ask them about their intention to return to work. No matter what their response, however, returning reservists generally have 31 days to apply for re-employment, and returning veterans have 90 days to apply for re-employment.

Even if a reservist or veteran tells you he is not interested in returning to work, he can still demand his job back at any time before the expiration of the applicable time period.

Is a returning reservist or veteran given any job protection?

Yes. Generally, a re-employed reservist cannot be discharged without cause for six months even if an employer has no oral or written policy on limiting discharges to just cause.

Similarly, a veteran may not be discharged without cause for one year after returning to work. NB

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POSTWAR REPORT

U.S. Firms Seek Contracts For Rebuilding Kuwait

By Albert G. Holzinger

Are you willing to spend a lot of time, energy, and probably money in pursuit of plentiful new business that could last through this decade?

The answer is a resounding yes from the owners of countless small and midsized U.S. companies. Spurred by continued slow domestic sales, many firms are seeking a role in the massive effort under way to restore war-ravaged Kuwait.

Those businesses that succeed in finding a niche in Kuwait for their products or services will be richly rewarded: Resupply and reconstruction cost estimates are as high as $100 billion over five to 10 years. But before you reserve a seat on the next flight to Kuwait City, be forewarned: Only a select few of the most resourceful American entrepreneurs are likely to thrive in Kuwait's challenging business environment.

Traditional Middle Eastern commercial practices will pose "considerable barriers" to smaller American firms, warns Joseph P. Saba, a partner in the Washington, D.C., law firm of Squire, Sanders & Dempsey. Saba, who has represented U.S. firms in the Persian Gulf region for 14 years, testified recently before the Senate Small Business Committee. He said the barriers to U.S. firms in the Persian Gulf will include a shortage of current and reliable information about contract opportunities, unfamiliar and often restrictive legal and business practices, and "serious" cultural differences.

As if these impediments might not be formidable enough, Saba testified, U.S. entrepreneurs are also likely to encounter an unprecedented level of competition for contracts, "not the least of which [will come from] the large Arab merchant class."

Saba's conclusion: "While there is significant work to be done in Kuwait and a strong pro-American sentiment, it is foolhardy to assume that [small and midsized] American companies will win much of this work."

Earlier this year, the U.S. Department of Commerce was expressing a different viewpoint concerning the prospects of American entrepreneurs in Kuwait. At the same Senate hearing where Saba appeared, and at a hearing by the House Small Business Committee, Thomas J. Dusterberg, Commerce's assistant secretary for international economic policy, said: "Smaller contractors will indeed find opportunities there. . . . Hundreds and perhaps thousands of such firms, in our opinion, are going to be the backbone of the reconstruction effort."

Now, however, the Commerce Department's assessment of small business's contracting prospects is much more guarded. In fact, those with no previous international business experience who now call Commerce's Gulf Reconstruction Center, established to help American firms seeking to jump on the reconstruction bandwagon, are being advised to get their initiation in international business in an easier foreign marketplace such as Canada.

This change of attitude, say Commerce officials, is a result of lingering uncertainty about vital business details. For example, before the Iraqi invasion, foreign firms that wished to enter the Kuwaiti marketplace were required to enlist local agents or distributors or form joint ventures with local Kuwaiti firms. If these and similarly restrictive requirements are not waived—and the U.S. government has not been told yet that they will be waived—most small U.S. businesses effectively will be precluded from bidding for Kuwaiti contracts.

Yet entrepreneurs will be entrepreneurs, and the U.S. small-business community's level of interest in doing business in Kuwait remains staggeringly high by anyone's definition.

Commerce reports it has been receiving an average of 2,000 calls a day at its Gulf Reconstruction Center (202-377-5767). High levels of inquiries have been reported also by the U.S. Small Business Administration (800-827-5722) and the U.S. Army Corps of Engineers (703-665-3798).

Congressional offices are receiving so many calls that it's hard to get through.

Calls to the U.S. Chamber of Commerce's international division (202-463-5990) have tapered off only slightly from their level of about one call every five minutes during the days immediately following the liberation of Kuwait.

The Kuwaiti Emergency and Reconstruction Programme office still may have the hardest telephone to reach in Washington (202-508-0250).

PHOTO: ©PETER TURNLEY—BLACK STAR

The Kuwait Sheraton hotel *will be restored. The total cost of repairing Kuwait's war-ravaged infrastructure could reach $100 billion.*

To its credit, the U.S. government is seeking to respond to this unprecedented show of interest in international trade as best it can. An example is Commerce's hastily organized Gulf Reconstruction Center, a computerized database containing up-to-date information about contracting opportunities with public and private entities in Kuwait. The database also contains the names, addresses, phone numbers, and pertinent business data of all callers, so that a Commerce official can inform them of applicable opportunities as they arise in the coming months or years.

"We have very much in mind our responsibility to small and minority-owned businesses," says Commerce's Dusterberg, "and the design of this system was laid out with the infrequent exporter in mind."

Commerce also has enlarged its staff

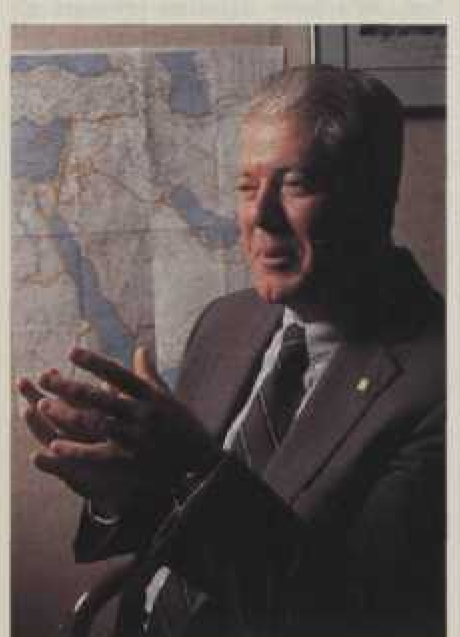


PHOTO: ©PAUL FETTERS

Blase Cooke *is helping Maryland firms seek contracts in Kuwait.*

of commercial officers in Kuwait and Saudi Arabia to provide U.S. business visitors to the Persian Gulf region with links to the Middle Eastern business community. In this regard, says Dusterberg, "we plan to conduct a series of trade missions to the region at the appropriate time."

Similar information activities are under way at several other agencies, including the Small Business Administration. Export financing and other monetary aid is forthcoming from still other entities, notably the Overseas Private Investment Corp. (OPIC) and the Export-Import Bank of the U.S.

While it is still too early in the contracting process to assess the usefulness of these federal assistance programs, it is clear that in pursuing business opportunities, many U.S. entrepreneurs still have more faith in their own abilities than in their government's.

Business people's self-reliance is typified by members of the Kuwait-Maryland Partnership. Even before the start of Operation Desert Storm, a handful of owners of construction-related businesses in Maryland decided that a collective effort would be the most effective approach to winning contracts for rebuilding postwar Kuwait, says partnership participant Blase Cooke.

"We knew that there would be thousands of firms interested, and we were concerned that our [individual] letters of interest and resumes would get lost" amid the clutter, says Cooke, president of Thomas P. Harkins Inc., a general-contracting firm.

The partnership includes the Maryland agency that promotes international trade by firms in the state. Also taking part is Gov. William Donald Schaefer, who led a five-day trade mission to Kuwait in early March. By joining with the state, says Cooke, the Kuwait-Maryland Partnership gained credibility and vital access to Kuwaiti decision makers.

The partnership assembled its own database of firms, "some with as few as 20 employees," interested in reconstruction work, says Cooke. The partnership also arranged to have staging areas set aside at the Port of Baltimore and at Baltimore-Washington International Airport, so that Kuwait-bound goods could be assembled, packed, and shipped quickly and efficiently.

What partnership members have done, says Cooke, is provide a structure through which Kuwaiti authorities can sign a turnkey contract for work such as rehabilitating buildings and constructing temporary shelters, confident that partnership members will carry it out satisfactorily and as soon as possible.

It's still too early to judge the effectiveness of the partnership's game plan. What Cooke and his colleagues already know, however, is that they have pursued this opportunity innovatively instead of trusting someone in government to pursue it for them.

Even the federal officials who recently touted to Congress their agencies' programs on behalf of small business encourage private-sector initiative such as that displayed by the partnership. Says William S. Becker, counselor to the administrator of the Small Business Administration: "Companies should be aggressive, they should be persistent, and they should pursue every possible lead and bit of information. [Government programs] may help some small firms obtain contracts [in Kuwait], but they cannot substitute for entrepreneurship." ■

FINANCE

The Earnings Test Has Failed

Repeal the Social Security earnings test, many say, because it discourages the elderly from entering a work force that needs them.

By Joan C. Szabo

Earl Tindall returned to work after being retired for several years because he wanted to stay active, he says, and because he and his wife, Nancy, needed the extra income and health benefits that his current job offers. Trying to make ends meet on Social Security and a small pension is not easy in today's economy, Nancy Tindall says.

Unfortunately, though, the job is taking its toll on the couple's Social Security benefits. The Social Security retirement earnings test requires the Tindalls to give up a portion of their Social Security benefits each year.

In 1991, the earnings test reduces Social Security benefits for working individuals aged 65 to 69 by 33 percent for every dollar they earn above $9,720. For those aged 62 to 64, the benefit reduction is 50 percent for every dollar earned above $7,080.

The Social Security earnings test does not affect individuals who are 70 or older, and it does not apply to nonearned income, such as interest or dividends from investments.

When the earnings test is combined with other federal taxes, the effective marginal tax rate for a worker earning just $10,000 a year rises to nearly 56 percent, and that rate does not include state and local taxes. Single people begin paying federal income taxes when their income is over $6,400; for a married couple, the amount is $11,300.

There is also a Social Security benefit tax that affects some of the nation's elderly. Depending on their tax bracket, the working elderly who also are subject to the benefit tax can face a marginal tax rate that can go as high as 80.34 percent. (See the chart on Page 43.) The benefit tax applies only if one-half of Social Security income plus all non-Social Security income, including income from tax-exempt bonds, exceeds $25,000 for an individual, or $32,000 for a couple. (Under current law, a maximum of one-half of Social Security benefits is subject to taxation but is not automatically included in the ordinary income of the taxpayer.)

In Earl Tindall's case, it is the earnings test that has reduced his income.

Although Tindall says he will continue to work, a number of elderly people have opted not to do so because of the high effective marginal tax rates they must pay because of the test.

PHOTO: ©JOHN ZICH

Rep. J. Dennis Hastert, *right, discusses the earnings test with Sears employees Jim O'Connor and Kaye Neuenkirchen in Aurora, Ill.*

The effect of the test, according to those who oppose it, is to discourage retired workers from returning to work and to encourage elderly workers to leave the work force. Those aims may have seemed beneficial in the 1930s, when unemployment was high and the law was instituted, but the outlook for the work force today is quite different.

The pool of available labor is growing more slowly as fewer young people enter the labor force. As a result, many businesses are looking more and more to retired workers to fill job openings. In particular, companies in the service, retailing, and health-care industries find retired workers especially valuable additions to their work forces.

To combat the barrier to working that many older Americans face, legislation has been introduced in both the House and the Senate to repeal the earnings test. One bill, the "Older Americans' Freedom To Work Act," would eliminate the test—and thus any loss of Social Security benefits—for people once they reach age 65.

The measure was introduced by Rep. J. Dennis Hastert, R-Ill., and has 230 cosponsors. Hastert says his bill also would benefit business. "Older workers understand the work ethic, they are invaluable in training other employees, and they are a good example to have around whether in a big or small business," he says.

A similar bill has been introduced in the Senate by John McCain, R-Ariz.

Democratic opponents of such legislation, who have defeated previous attempts to eliminate the test, argue that repeal would result in a loss of federal revenue. They cite Congressional Budget Office (CBO) estimates that repeal would cost the government $3.6 billion in the first year and $26.2 billion over five years.

Proponents of repeal, however, say the CBO estimates are based on static revenue models and do not take into account the changes that would follow from repeal of the test. Lisa Sprague, manager of employee-benefits policy for the U.S. Chamber of Commerce, says repeal would encourage more elderly Americans to work. And that change in the work force would spur the economy, say the Chamber and other business groups, which strongly support legislation to repeal the earnings test.

Repeal would actually produce more revenue for the federal government, according to a recent report, *Paying People Not To Work*, by Aldona and Gary Robbins. The two former Treasury Department economists say that if the retirement earnings test is eliminated, at least 700,000 elderly retirees would enter the labor market.

The authors state: "Our annual output of goods and services would increase by at least $15.4 billion. Government revenue would increase by $4.9 billion, more than offsetting the additional Social Security benefits that would be paid." The report was co-sponsored by the Institute for Policy Innovation, in Lewisville, Texas, and the National Center for Policy Analysis, in Dallas. Both are nonprofit research organizations.

Opponents of repeal argue that it would favor the rich. But Rep. Hastert contends that two-thirds of those who would benefit from repeal would be receiving earned income of less than $40,000 a year. In fact, lower-income workers are especially hard hit by the

earnings test, according to many who want it repealed. Those with lower incomes, it is argued, have the greatest need to supplement their incomes because during their working years they probably did not save enough for retirement, they are less likely to be eligible for employer pension benefits, and are more likely to receive lower Social Security benefits.

Opponents of repeal also argue that Social Security benefits should be allocated only to those who are retired. Proponents say this argument ignores older individuals' difficulties in trying to survive solely on Social Security.

In addition to producing more federal revenue, the Chamber's Sprague says, eliminating the earnings test would free resources within the Social Security Administration, which spends a disproportionate amount of its budget and staff time monitoring retiree income levels.

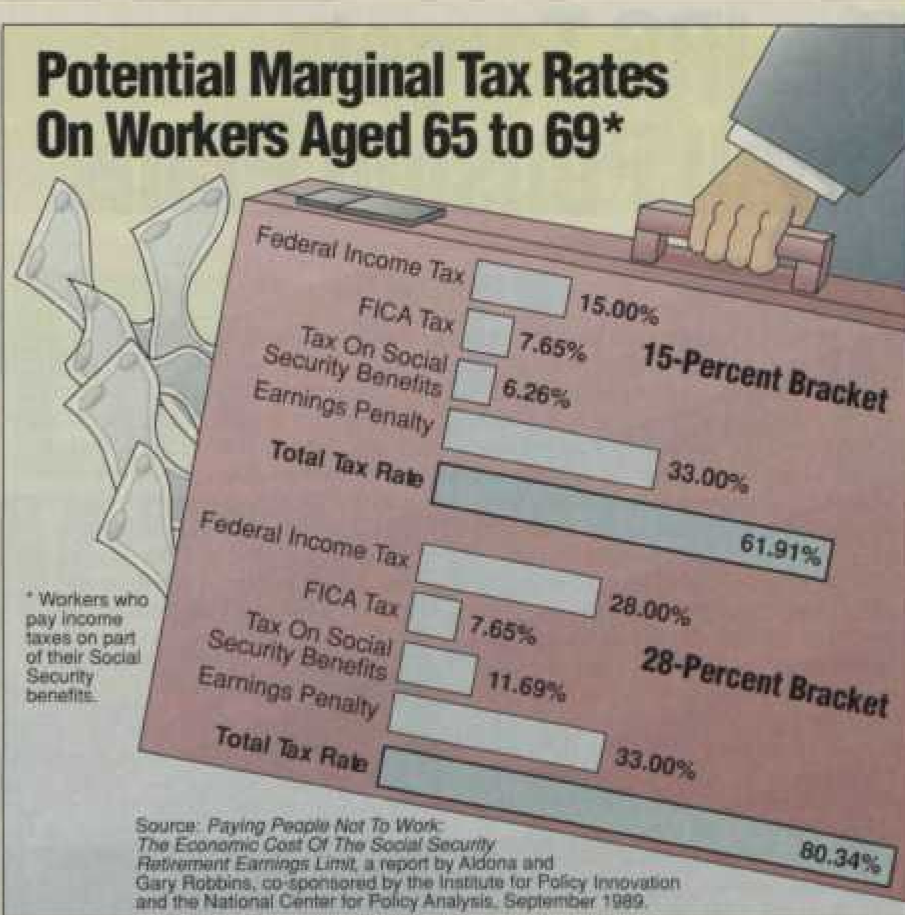
The American Health Care Association, a federation of state associations that serve more than 10,000 nursing homes and long-term-care facilities, also strongly supports the repeal legislation. Nursing facilities face serious staff shortages that are expected to grow more severe as demand for care increases, says Paul R. Willging, executive vice president of the association. By expanding the labor pool with older workers, repeal could help such facilities meet staffing needs with capable employees, he says. "Older workers make wonderful nurse assistants because they are dependable, compassionate, and they bring a special understanding to their jobs, which improves the quality of life enjoyed by elderly and disabled residents in nursing facilities."

The American Association for Retired Persons continues to support liberalization of the earnings limit, says Evelyn Morton, a legislative representative for the group. This approach would increase the earnings limit so that older persons could work without facing a significant reduction in their Social Security benefits. "We are not supporting a specific dollar figure," says Morton. "But we believe that an increase in the amount that can be earned is necessary."

The House plans to hold hearings on the issue in late spring. The bill has much support, says Sprague, but she warns that Rep. Dan Rostenkowski, D-Ill., chairman of the tax-writing House Ways and Means Committee, is not enthusiastic about it, and measures he dislikes "have a way of becoming stalled."

Hastert says he hopes hearings in June will help move the bill to the floor. He says: "We have 230 co-sponsors on the bill, and that is not a bad way to start with a piece of legislation. Hopefully, that will help change the minds of those who oppose it." ■

Potential Marginal Tax Rates On Workers Aged 65 to 69*



BENEFITS

The IRS Targets Small Pension Plans

Is this IRS audit program a campaign against tax cheats or an arbitrary scheme to boost revenue?

By Roger Thompson

When it came to compliance with federal pension laws, Fran Morgan played strictly by the book. He voluntarily sought, and obtained, Internal Revenue Service letters of approval when he set up his restaurant management company's four-person retirement plan in 1983 and again when he ended the plan in 1989.

Now Morgan, president of Morgan Restaurant Management, in Fullerton, Calif., can't understand why the IRS is throwing the book at him for allegedly pouring too much money into the plan. The IRS contends that he owes $80,000 in back taxes plus $50,000 in penalties and interest because he made excess plan contributions. The approval letters Morgan received, it seems, did not specifically address the issues raised by the IRS's later audit.

"The thing that bothers me most," says Morgan, whose company manages 11 restaurants, "is that I paid the IRS a fee to examine my plan and determine whether everything was all right. Twice they said it was fine. Then they come back and say that I owe $130,000. It just doesn't make any sense."

The same, or much worse, often is said of the IRS's audit program for small pension plans—the program that snared Morgan's retirement plan for scrutiny.

The program is "illegal and abusive," fumes Chester J. Salkind, executive director of the American Society of Pension Actuaries, in Washington, D.C.

"Arbitrary and driven by the need to raise revenue to fight the [federal budget] deficit," says Bruce Ashton, Morgan's attorney in Los Angeles.

"Highly unethical and immoral," complains E. William Berke, president of Benefit Associates Inc., in Orange, Calif., and a member of an IRS advisory committee on pensions.

The IRS declined to comment on any of these accusations.

Beginning in November 1989, the IRS targeted for special audits defined-benefit pension plans that covered one to five persons at any time during 1986 through 1988. The agency suspected that within those plans were thousands of highly paid professionals—such as doctors and lawyers—and successful business owners who were larding their pension plans with excessive tax-deductible contributions. These high-income individuals used their pension plans as illegal tax shelters, says the IRS.

The agency trained its sights on plans with the greatest potential for abuse—those with annual contributions exceeding $100,000 per participant. In effect, the IRS targeted very small plans, because few with more than five participants have annual contributions that large. By contrast, the average pension-plan contribution is about $5,000 a year per participant.

While there is nothing inherently illegal about six-figure payments to a pension plan, the IRS maintains that such large sums often reflect the use of unreasonably low interest-rate and retirement-age assumptions in computing plan contributions. The lower the assumed interest rate on plan investments and retirement age of plan participants,

PHOTO: ©JIM MENDENHALL

The IRS approved *his firm's pension plan and later claimed it was improperly funded, Fran Morgan says. "It just doesn't make any sense."*

the greater the annual tax-deductible contribution needed to reach the plan's retirement-income goals. In the IRS's view, many small-plan sponsors pick unreasonably low interest and retirement assumptions to inflate their plan contributions.

The audits focus on the issue of reasonableness because Congress did not specify what interest rates and retirement ages should be used in designing pension plans. Lawmakers deliberately avoided picking specific numbers because plan sponsors need flexibility to tailor plans to their needs. Over the years, the IRS has attempted to interpret Congress' mandate of flexibility in terms of "reasonable" interest rate and retirement age assumptions.

Under the small-plan audit program, the IRS says it is unreasonable to assume an interest rate lower than 8 percent or retirement before age 65. Because it figured most small plans would flunk one or both of these tests of reasonableness, the IRS projected that the audits would raise $666 million in taxes, interest, and penalties.

To date, the IRS has completed some 3,000 small-plan audits and has disallowed tax deductions averaging $111,000 in about 80 percent of those cases, says an IRS official, who spoke on the condition that he not be identified. The remainder have been dismissed with no change. More than half of the audits involved plans covering a single participant. The IRS now says that about 14,000 plans will be audited, down from the initial estimate of 18,000.

Whatever the merits of the IRS audit program, it has touched off a storm of protest from those affected. The U.S. Tax Court has been flooded with challenges; the IRS has lost two Freedom of Information Act lawsuits and has been required to release internal documents relating to the audit plan; and there have been threats of legislation to halt the audits.

In a Feb. 6 letter to IRS Commissioner Fred T. Goldberg, Rep. Nancy Johnson, R-Conn., detailed her strong objections to the audit program and concluded: "Unless the small-plan actuarial audit program is substantially constrained administratively, I fully expect the [House] Ways and Means Committee, with my strong support, to address this matter legislatively."

In her seven-page letter, Johnson echoes numerous other critics who charge that the IRS set out on a mission to raise revenue and picked small pension plans as an easy target. "This program is directed solely against small pension plans despite the fact that the actuarial assumptions in many large plans would


PHOTO: T. MICHAEL KEZA

The pension-audit *program is "illegal and abusive," says Chester Salkind.*

be challenged if the same standards were applied [to them]," said Johnson.

In a letter to Johnson, the IRS defended its audit program and said it expects its actions to be upheld in the U.S. Tax Court.

The American Society of Pension Actuaries (ASPA) has maintained from the start that the IRS produced a revenue projection first, then figured out how to reach that goal. To prove its point, ASPA sought copies of IRS background documents used to calculate the audit program's revenue estimates. When the IRS refused to release the documents, ASPA sued under the Freedom of Information Act and won last September. The IRS filed an appeal, then abruptly changed course in early March and gave the disputed documents to ASPA.

The documents show that the IRS expected to disallow pension deductions in 85 percent of the cases it examined. Salkind sees this as strong evidence that the agency set out to extract revenue from small pension plans arbitrarily "without reference to the facts and circumstances in individual cases."

Says Frederick Reish, a Los Angeles pension attorney: "Any audit program that would generate an 85-percent change rate inherently means there is a fundamental misunderstanding between the taxpayers and the IRS."

Lisa Sprague, manager of employee benefits policy for the U.S. Chamber of Commerce, says the IRS is "applying arbitrary standards retroactively, leaving small-business owners neither defense nor recourse."

The IRS maintains that it is going after small plans because that's where the abuses are. But consultant Berke, who serves on the IRS's pension advisory committee, says the agency had a hidden agenda. He contends the audits were sparked by key IRS pension officials' belief, articulated at an advisory committee meeting he attended in late 1989, that "it's just unconscionable for someone to take more than a $100,000 pension-plan deduction."

In fact, small pension plans by their nature have higher contributions per participant than large plans because the smaller plans typically have a greater percentage of highly paid management and professional employees. In addition, small plans frequently are started long after the company is established—it may take years to become profitable—and therefore have a shorter period to fund benefits.

While the IRS characterizes its audit program as simply an expansion of its longstanding efforts to catch tax cheats, many others see it differently. ASPA maintains that the audit program represents a "fundamental change" in the way the IRS conducts small-plan audits because, for the first time, the agency has instructed field agents to use specific interest-rate and retirement-age assumptions to disallow the tax deductibility of pension contributions.

The IRS tried to conceal its abrupt change in policy, ASPA maintains, by refusing to make public the November 1989 internal memorandum that launched the audit program. ASPA obtained the document on Feb. 7, 1990, only after filing a federal suit under the Freedom of Information Act—a suit separate from the one to obtain the background documents.

Pension professionals were stunned when they learned of the memorandum, says Berke, because the agency "has given its blessing for years" to pension plans that set interest rates below 8 percent and retirement ages below 65.

Critics point out that the IRS's own *Actuarial Audit Guidelines Handbook*, issued to field agents in 1984, allows interest rates within four percentage points of a pension plan's actual investment experience over a three-year period. Thus if a plan used 5 percent and if investments yielded 9 percent, the plan passed muster because it fell within the range of four percentage points.

For new pension plans with no investment track record, IRS officials long held that the same logic applied. An interest rate within four percentage points of prevailing long-term U.S. government bond rates satisfied the IRS. During the years subject to the audit program, average Treasury bond interest rates were 7.8 percent in 1986, 8.39 percent in 1987, and 8.96 percent in 1988. Thus, using the guideline of four percentage points, pension-plan designers assumed that rates below 8 percent would meet with IRS approval.

Despite nearly universal application of the four-percentage-point "corridor"

in pension-plan design throughout the past decade, the IRS official said the handbook never authorized such a corridor for setting interest rates for new plans. And even if it implied such a corridor, the official added, the handbook never had the force of law.

Moreover, the IRS official pointed to a 1989 U.S. Tax Court case, Mirza vs. U.S., as evidence of the agency's judicial authority for imposing an 8-percent interest rate on small plans.

In the Mirza case, a 43-year-old Chicago attorney set up a defined-benefit pension plan for himself in 1980 and assumed an interest rate of 5 percent and retirement at age 55. His first-year contribution was $625,000. The IRS disallowed most of the deduction, arguing that the 5-percent interest rate was unreasonable since the plan immediately invested in government securities paying 11.65 to 15.75 percent. The agency imposed an 8-percent interest rate on Mirza's plan when it recalculated his deductible contribution.

A U.S. District Court and a federal appeals court agreed with the IRS. "It was decided that 8 percent was reasonable, but not based on any corridor assumption," says the IRS spokesman. "Rather, an actuary could reasonably expect that long-term interest rates would be 8 percent over the long haul." By extension, the IRS argues that 8 percent is the reasonable rate to apply to plans under the audit program.

Contrary to the IRS position, critics find support for the four-percentage-point corridor in the Mirza ruling. They contend that the IRS implicitly accepted the notion of four percentage points when it imposed an 8-percent interest rate at a time when bond rates were 12 percent or higher.

The IRS also seems to be swimming upstream on the retirement-age issue. Social Security recognizes 62 as the age of eligibility for benefits. Numerous studies show that workers tend to take a retirement benefit soon after it becomes available. For example, more than 80 percent of all government workers with 30 years of service by age 55 are retired by age 60.

In many cases, small pension plans assume retirement at age 55. The IRS contends this is unreasonable. "The people who are involved in these examinations do not retire at age 55," says the IRS spokesman. Critics point out that whether someone continues to work past age 55 is not the issue. Pension law defines retirement as the age at which a benefit is paid out under the plan, not the age at which someone ceases all gainful employment.

Berke notes that there are sound actuarial reasons for small pension plans to use what the IRS now considers unreasonably low interest rates and retirement ages. Large plans spread their risks over hundreds or thousands of participants and are viewed as continuing into perpetuity. Small plans typically terminate with the retirement or death of the business owner. Large plans can absorb funding errors and correct them over time. With five or fewer participants, there is little margin for error in small plans and often relatively little time to recoup when a funding mistake is made.

"The standard large-plan assumptions just won't work with such small groups," says Berke. "So you use conservative assumptions [lower interest rates and retirement ages] to cover all the actuarial unknowns."

Since the audit program began, about 70 cases have ended up in federal tax court. Tax Court Judge Clarence E. Clapp II has consolidated the audit cases under his jurisdiction. He plans to select a number of lead cases on which to issue rulings that will facilitate out-of-court settlements for the remaining cases. Rulings are expected next year.

Meanwhile, Morgan is wondering what to do about his own case. He was 51 when he started his pension plan in 1983, and he has been in business for 23 years. The plan assumed he would retire at age 58, while three other participants would retire at 55. The plan also assumed an investment interest rate of 6 percent.

Since the IRS first billed Morgan for $130,000, the agency has dropped its objections to his interest rate. Morgan says his plan actually earned 7 percent during the six years it was in effect.

But the IRS has held fast on disallowing the plan's retirement ages and still says Morgan owes $130,000, although one person already has retired at 55. Morgan, now 59, has had two heart attacks, and he says he wants to retire but can't afford to do so until the pension case is resolved. If the IRS case sticks, he says, the state of California will come after him for an additional $80,000 in taxes, interest, and penalties.

"To take this through Tax Court could cost me $50,000 or more in legal fees," says Morgan. "I've already spent $10,000." And even if he wins, he loses. The IRS doesn't have to pay his legal bills. "The IRS won't go after the big companies because they can afford to fight back," he says. "They are going after the little guys like me who can't afford to defend themselves." NB

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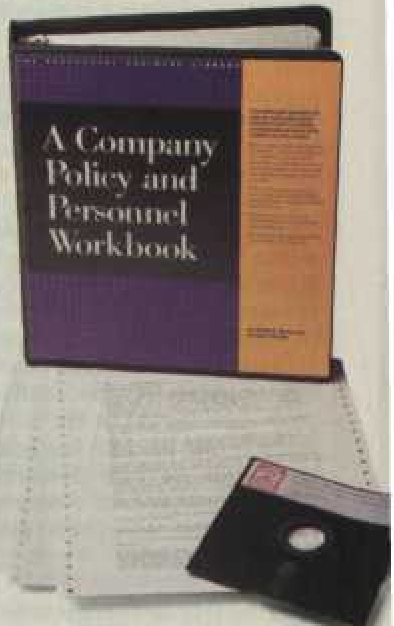

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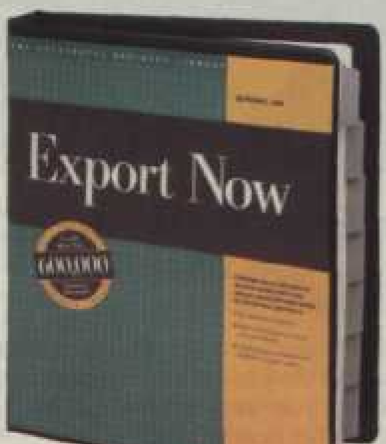

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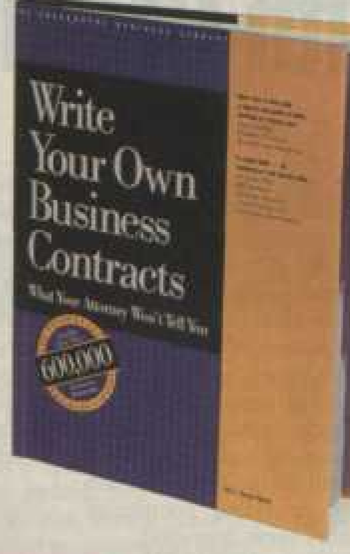

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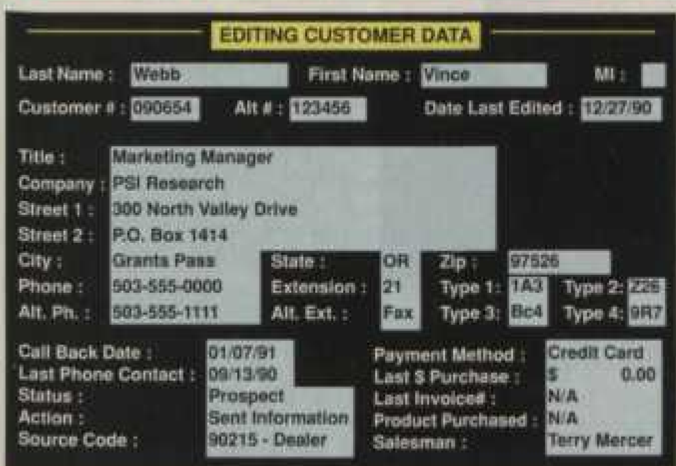

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FINANCE

Controlling Costs With Credit Cards

Major credit-card companies are offering services and programs designed to help small firms manage more efficiently.

By Joan C. Szabo

Many small-business owners are finding that a business credit card is invaluable in their firms' day-to-day operations. The cards are useful for expenses such as airline tickets, rental cars, business entertainment, office supplies, and even equipment such as computers, and they also are practical management tools for entrepreneurs wishing to track and control business costs. In addition, credit cards can help improve cash flow by providing companies with short-term financing.

"A business credit card really helps us differentiate between personal expenses and business expenses; that is an important benefit," says small-business owner Judy Whatley. She and her husband, Alvin, own Interstate Roofing and Sheet Metal, in Coeur d'Alene, Idaho. Judy Whatley says she also likes the flexibility that credit cards provide when she purchases various goods and equipment for her business. "We find a business credit card essential for our out-of-town roofing jobs when we need to run to the local hardware store to buy small tools and materials we may have left behind."

To help small firms manage more efficiently, the country's major card companies have come up with a host of services and programs designed with business owners in mind. For example, the MasterCard BusinessCard lets a company set limits for each employee who has access to a card and to adjust each limit quickly as the employee's business-spending needs change.

Visa U.S.A. Inc. too lets its business-card holders set their employees' spending limits, says Margaret M. Purcell, director of Visa Business Card. Many business owners are concerned about potential card misuse, says Purcell, and they want to set limits. "Misuse is minuscule," she says, "but presetting spending limits helps allay any worries."

American Express recently announced the introduction of its Executive Corporate Card, which is an expansion of its corporate card program and includes many new services. One such feature is a 24-hour executive service desk to help card holders find temporary office space while on the road, obtain business machines, and locate temporary secretaries.

The major card companies also provide small-business owners with in-depth management information reports based on expenses charged with the cards. Depending on the card company's practices, these reports may be quarterly or monthly and may be broken down by type of expense (such as lodging or air travel) or by the person or department incurring the expense. These reports help firms manage, monitor, and better control costs. They are useful in pinpointing excessive spending, checking the volume of cash advances, alerting owners to opportunities that may allow them to negotiate discounts with vendors and suppliers, and identifying disputed charges.

PHOTO: ©JON FEINGERSH—THE STOCK MARKET

Business meals *and other expenses can be tracked when they are charged with credit cards.*

In addition, the reports provide small-business owners with records for tax purposes, says Paul J. Novak Jr., vice president of MasterCard BusinessCard. With these reports, small-business owners are less likely to miss tax deductions because of lost receipts.

The major card companies also offer a number of special enhancements. American Express, for example, has a hotel plan that allows small-business owners to book hotels at rates that usually only larger corporations would be able to negotiate, says James A. Firestone, executive vice president of the company's small-business and corporate services.

Another advantage of the business credit card is the convenience it offers. One piece of plastic gives a business person access to millions of merchants around the world, says MasterCard's Novak.

Credit cards are particularly handy when cash is in short supply, says Kurt Peters, editor of *Credit Card News*, a twice-monthly newsletter that covers the credit card industry. "Using a credit card is a painless way to get a loan," he says. "That is why the cards are so popular. They have as much applicability to a small firm as they do to an individual."

While the American Express Corporate Card requires that the entire card balance be paid off each month, it does provide an extended payment period without finance charges for certain business purchases, such as personal computers, fax machines, and cellular phones.

Peters urges small-business owners to shop carefully for the lowest interest rate on bank cards that carry a revolving credit line, where finance charges accrue if the balance is not paid in full each month. He says: "There is no reason to finance your business at 19 percent interest. Try to find a card that carries an interest rate of 12 percent." Of course, monthly charges can be paid in full, interest-free.

Bankcard Holders of America (BHA) issues information on the lowest-rate cards available throughout the United States. Its low-interest rate list is available for $1.50 by writing to BHA, 560 Herndon Parkway, Suite 120, Herndon, Va. 22070. It names 35 banks offering cards at 16.5 percent or below; some of those banks may also offer credit cards for business use.

Receiving a credit line for short-term financing needs is a major advantage of a business credit card, says Peters. "If you need the credit and you can pay off the debt within a 25- to 30-day time frame, you have just gotten yourself a free loan. This helps lower the cost of doing business." NB

To order reprints of this article, see Page 73.

FINANCE

Deciding Whether To Go Public

Consider these questions before you decide whether to embark on a voyage that could involve risks as well as rewards.

By Philip W. Taggart and Roy Alexander, with Robert M. Arnold

ILLUSTRATIONS: TRACI HARMON

At some point, many growing businesses face the question of whether they should go public.

There are major advantages in taking that step. Going public allows you to raise operating and expansion capital by selling off a percentage of your company to many others. In the process, you can benefit personally by establishing a public market for the stock you own.

But it's not free money: You pay to go public, and you pay to keep owners informed and to maintain a healthy market for your securities.

Selling public shares, if properly managed and correctly timed, can provide capital at attractive costs. But you can also spend a couple of hundred thousand dollars on going public and fail, taking your company a step backward. Nor is selling shares to the public a one-time experience.

Becoming a public company commits you to permanent responsibility to stockholders and continual obligations in meeting exacting reporting and management standards.

Yet, going public makes sense. The genius of capitalism lies in its ability to tap the savings of millions of ordinary citizens. Only public markets are large enough to supply the equity that a truly large enterprise needs.

Companies attracting investor interest will have capital to recruit talent, develop new products, build plants, and market effectively. In the hands of talented managers, capital is the ultimate competitive weapon.

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But before you start down this road, you must ask yourself: Do I really want to sell part of my company?

After all, you have only one company to sell. When you've sold it, it's all gone. Within this context, debt is always cheaper than equity. You repay debt and still have your company.

In going public, you must be willing to part with still more of your company than you have already committed to raise start-up capital.

If you're now a larger company with more than $20 million in annual sales, you probably won't have to sell more than 35 to 40 percent—more likely only 20 percent. A small company, however, must give up considerably more. Many successful companies have gone public when their sales were in the $5 million to $10 million range.

Few companies with less than $5 million in annual sales go public successfully, however. In fact, going public has actually ruined small companies. They sold so much of the company and realized so many costs in the process that they couldn't generate positive cash flow.

Assume, though, that you have decided that you're willing to sell your company. You must then take a hard look at whether you are ready to enter the public market at this time. Here are some considerations that you must address:

- Your company should have either a history of good sales and earnings growth or a unique position in its market and be about ready to show good results. Underwriters usually prefer a history of consistent growth in revenues and earnings.
- Proprietary technology, products, or services are more attractive to investors than generic ones. How does your company rate here?
- Your market should be large enough to sustain rapid revenue growth.
- Your management style must be flexible enough to bear up under pressure from stockholders, directors, and the public.
- You should have a strong, experienced management team.
- Overall stock market conditions should be favorable.
- You should have audited financial statements for three years.

In the final analysis, a company must demonstrate *quality* to go public and maintain acceptance in the financial community. This is done in six ways:

Quality Of Management. Far and away the most important determinant in a company's ability to go public is recognition for high-quality management over a period of time. You must bring to the table an approved track record as a manager with the ability to prepare and follow a sound business plan. Top management personnel must be able to maintain their company's leadership position.

Quality Of Earnings. Earnings from continuing operations, not unusual or one-time sales, are what count. You can enhance earnings by changing cost items—reducing maintenance or cutting advertising, for example. This denigrates earnings quality. Security analysts will discover it pretty quickly, too.

Your earnings should increase in proportion to your revenues. Earnings as a percentage of revenues should remain the same or rise in most instances if you're truly creating an operation with greater efficiency.

Quality Of Balance Sheet. Debt-to-equity ratios vary from industry to industry, but generally the lower the ratio, the better. In some industries, companies should have no debt on their balance sheets.

Beyond the debt-to-equity ratios, the quality of cash flow is important. How much of it is truly cash generated by

operations? How much traced to deferred taxes and depreciation?

Quality Of Industry. Are you in a growing industry with opportunities or a maturing or declining industry? Typically, industries start in a highly fragmented fashion, consolidate, and decline. Companies make the most money in the consolidation stage.

Quality Of Operations: The company should enjoy growing demand for its products and gain in share of market, and it should demonstrate the ability to keep growing and keep supplying the market. When markets peak, management should be able to move into other areas.

Your ability to take advantage of opportunities relates to the aggressiveness of your research, your geographic locations, and licensing considerations.

Quality Of Reporting. This requires credibility, the ability to predict and forecast based on good planning, and continuity of message to financial audiences—all to ensure trading activity warranted by corporate performance.

Even if you can offer all that to investors, there are additional questions that must be faced. You must ask yourself:

■ *What priority do we place on corporate growth?*

If you have no plans to grow, or you're growing incrementally and can finance your company out of cash flow, or you're satisfied with sales growth at 5 or 6 percent a year, stay private.

People expect public companies in which they invest to show earnings growth of 12 percent to 15 percent per year. If you can grow at this rate, can generate superior profit margins compared to others in your industry, and have enough size and mass—$5 million to $10 million in sales—you can go public regardless of your business.

■ *Are we willing to meet the continuing costs?*

On offerings under $1 million, one dollar in four will go to accountants, lawyers, and underwriters. On offerings above $20 million, one dollar in 20 will go to these fees. Total costs can reach $500,000 annually. You must work this into your business plan and prove you can still grow at 12 to 15 percent per year.

For small companies, the cost of being a public company can thus run as high as 22 percent of the capital raised (although 12 percent is more common). For them, private placements costing about $125,000 with few continuing costs thereafter may prove more economic than going public. As you get larger and have greater capital demands, public offerings become more economical, dropping to 6 percent or less of capital raised.

■ *Are we ready for the perils of the stock market?*

The stock market holds every company, however lofty or lowly its product or purpose, to the same daunting standard: It honors the enterprise that knows how to make a buck. Executives learn that the market takes their measure. Its constantly fluctuating prices pronounce them effective managers, irresistible salespeople, inspirers of others, daring innovators, maybe geniuses—or sluggards, milquetoasts, wrong-guessers, incompetent turkeys whose inaction has left their companies ripe for takeover by sharp-eyed, sharp-penciled raiders.

Going public *means an end to informal talk about your business activities.*

Because of swift changes in market conditions, some companies have failed to go public altogether after laying out hefty fees to accountants and attorneys.

■ *Are we ready to change our lives?*

As a public company, you must answer to the public by reporting to investors. You have to stand up at least once a year and meet them face to face. You have to answer questions you've never thought about in the past—and do it cheerfully!

Public companies must file regular quarterly reports with the government. And when you're doing anything significant—things that affect your revenue stream by 10 percent or your assets by 25 percent—you have to file an extra report. You will face many reporting obligations you do not consider important—when you change officers, promote someone, even sell your personal stock.

Information you used to tell people at the golf club—about entering a new business or buying a new machine, for example—suddenly becomes inside information you can't reveal without telling the rest of the world at the same time. There are 21 subjects that you report not only to the government but also to the general public in newspapers.

If you want liquidity in trading of your stock, you have to go out and talk with your investors and those who influence them. Your travel will increase. Your worry and stress will increase.

■ *Are we willing to invest the time to do it right?*

Going public isn't an overnight job. You're actually creating a new business that will parallel your current operating business. Figure on devoting a full year to put in place the accounting and data-management systems that are appropriate to public companies in your industry.

Every industry has accounting standards established by the Financial Accounting Standards Board. You need to begin following them in your company.

You'll devote a second year to making sure your company's performance meets the financial community's expectations. You'll audit and revise your business plan in harmony with these expectations and adjust operations as required.

Finally, you go public in the third year. You select your underwriter, put together your three-year audited financial statements (relatively easy, since you put accepted accounting standards in place during the first year), file registration statements with the SEC, and make your public offering.

The number of companies going public each year depends on conditions of the stock market. In the late 1960s, investors eagerly searched for stock opportunities. In recent years, they have taken a more cautious approach.

Investor action in the marketplace is affected both by observable economic conditions (domestic debt, international trade, consumer spending, etc.) and individual preferences adding up to a collective mood.

If you choose to go public, worthwhile awards await you, but the road you travel is a tough one full of risks.

There are three games in life: games of chance, games of skill, and games of strategy. Going public puts you in all three high-stakes activities at once. ■

TAXATION

Readers Reply On Tax Cuts

Tax cuts would be a significant spur to recovery, in the view of *Nation's Business* readers responding to a poll on current and proposed tax levels.

The questions were posed in *Where I Stand*, a monthly feature soliciting readers' views on major business issues. (See Page 72 for this month's poll.)

The results of the poll on fiscal policy showed that nearly 90 percent of those responding said they would spend, save, or invest more if payroll taxes were reduced, and nearly two-thirds said that cutting the capital-gains tax rate would boost the economy and generate more revenue.

On the other hand, a majority of respondents would spend, save, and invest less if taxes were raised.

Tax cuts that would stimulate consumer expenditures and capital formation are the basic goals of an anti-recession plan developed by the U.S. Chamber of Commerce and now pending on Capitol Hill.

Richard Rahn, vice president/chief economist of the Chamber, told the Joint Economic Committee of Congress in recent testimony: "There are clear policy actions that always lead to more economic growth, greater income, and enhanced employment. The 'Economic Growth and Jobs Creation Act of 1991' combines a number of these policies into a single bill."

The bill would:

- Raise worker income and lower labor costs for business by cutting the combined employer-employee Social Security tax rate to 10.6 percent from the present 12.4 percent.
- Reduce the maximum capital-gains tax rates, now 28 and 34 percent for individuals and corporations respectively, to 15 percent and allow indexing of gains.
- Establish a new Individual Retirement Account, "IRA Plus," for after-tax deposits. Depositors could make tax-free withdrawals at age 59½ and at any age for first-time home purchases or for college costs or major medical expenses of a family member.

Legislative action is expected to come first on the proposal for cutting Social Security payroll taxes. The congressional reaction to the other proposals will develop as the lawmakers set fiscal and economic policies over the next several months for the federal government's fiscal year, which begins Oct. 1.

Surveys on tax policy will figure in the debate. Here are results of one survey, *Where I Stand* (where totals exceed 100 percent, respondents could make multiple choices):

1. The top marginal income-tax rates (33 percent for individuals and 34 percent for corporations) are:
   Too high: 67.5%
   Too low: 6.9%
   About right: 25.5%

2. Higher taxes would cause me to:
   Work harder to increase my income: 24.4%
   Work less diligently: 34.3%
   Maintain current work levels: 41.3%

3. To meet higher tax obligations, I would:
   Cut my spending: 61.7%
   Save/invest less: 52.3%
   Take greater advantage of tax shelters: 44.8%
   Make no change in my financial management: 3.6%

4. Taxing currently untaxed employee benefits would:
   Be fiscally reasonable: 11.5%
   Put an unfair burden on workers: 58.6%
   Deter companies from providing benefits: 63.2%
   Discourage the jobless from seeking work: 21%

5. Reducing payroll taxes would be likely to:
   Increase my personal spending: 32.9%
   Increase my savings and investments: 55.4%
   Cause no change in my financial management: 11.7%

6. Cutting the capital-gains rates would:
   Benefit anyone with salable assets, such as a home or a small company: 52.9%
   Benefit the well-off only: 14.4%
   Help boost the economy and federal revenues: 65.8%
   Increase the deficit: 8.8%

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LESSONS OF LEADERSHIP

The Republic For Which He Stands

Russell Goldsmith is transforming a moribund film library into a model media company.

By Michael Barrier

Not long ago, Russell Goldsmith recalls, he got a call from a talent agent at a major Hollywood agency. In 1987, that agent represented some of the people who made a television movie for Goldsmith's company, Republic Pictures—in Hollywood parlance, the agent had put together a "package" for the movie. As part of that package deal, the agent's clients were supposed to get a share of the "net profits" from the TV movie.

That might sound like a meaningless gesture, since, as everyone knows, "net profits" never exist in Hollywood's accounting; but everyone can be wrong.

The agent who called "had just gotten a check from us for net profits on this TV movie," Goldsmith says. "He said, 'I can't remember getting a check for net profits on a TV movie before.' He sent a memo to everybody in the agency, saying 'Republic Pictures just sent us $30,000 as our share of this picture's profits.' "

Two unspoken messages accompanied Republic's check, Goldsmith says. One was obvious: "We play straight." That might seem to be a critically important message, given the recent highly visible disputes over "net profits"—particularly columnist Art Buchwald's successful suit against Paramount Pictures for a share of the profits from "Coming to America," the hit Eddie Murphy film. In fact, though, simple dishonesty is not often a major issue in Hollywood money disputes.

Many Hollywood contracts are written so that "net profits" simply cannot exist unless a film is a hit of "E.T." proportions. The studios quite legally charge films with costs that gobble up all the money they bring in. For example, the *Los Angeles Times* recently reported that "Batman," a wildly successful film by any measure, is still officially more than $35 million in the red.

Russell Goldsmith explains: "It's one thing to find cheating. It's another thing to realize that we agreed on the following pinball game: You've got to hit this and this, and then, if there's anything left, you'll get a share of it."

Here we come to the second, and more important, of the unspoken messages accompanying Goldsmith's check: Republic squeezes every possible dollar out of its films. "I think this is one of our strengths as a company," Goldsmith says, "that we really strive, with a lot of effort, to maximize every piece of product in the library."

As far as that TV movie was concerned, that meant putting it onto videocassette, showing it on cable, syndicating it to local stations, and releasing it theatrically overseas, all within a few years of its original showing. "We did everything humanly possible to extract the maximum dollars," Goldsmith says.

Republic had also kept production costs under tight control. The fees that networks pay for showing TV movies almost never cover production costs—the producers make back their money

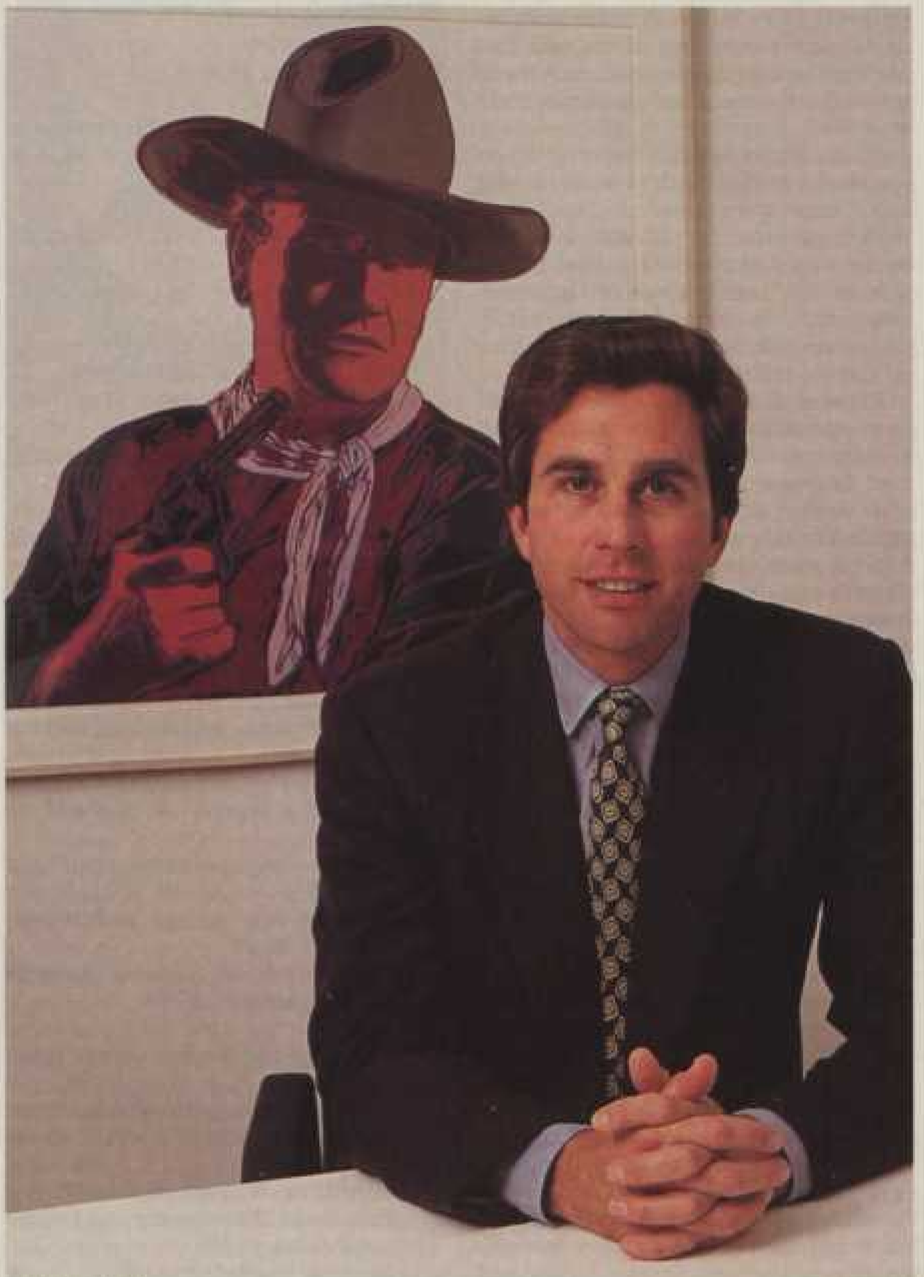

PHOTO: ©PAUL FETTERS

The modern and the *traditional blend at Goldsmith's Republic, which owns dozens of John Wayne films.*

through secondary sales—but in this case, Goldsmith says, "we were able to make a high-quality movie with a very modest deficit." Thus the movie moved into the black quickly, once Republic began selling it in other markets. The returns, if hardly of "E.T." dimensions, were large enough to bring into play the "net profits" provisions. Everyone came out a winner.

"It's a blend of things," Goldsmith says of the success of that film. "We accounted honestly, we got the most out of it from a revenue standpoint, and we produced it very efficiently. It all comes together."

And, of course, the more often "it all comes together" in just that fashion, the more successful the production company will be. In today's Hollywood, it would be hard to find anyone who understands that better than Russell Goldsmith. He bought control of Republic Pictures almost five years ago, and he has transformed what was then a moribund film library into a company that is in many ways a model for the modern media age.

Republic in the past never served as a model for anyone, although the heroes of its films certainly did. The company started in 1935 as a producer of low-budget westerns, and its first star was John Wayne. Republic found better things for Wayne to do—he starred in such well-regarded Republic films as "The Sands of Iwo Jima" (1949) and "The Quiet Man" (1952)—but cheaply made westerns remained the company's bread and butter; both Gene Autry and Roy Rogers were Republic stars.

Republic got out of film production in 1959, having lost its theatrical market to TV. But, unlike most other Hollywood studios, Republic had not sold off its library; it still owned the more than 1,000 films it had produced. For the next 25 years or so, the company survived by renting those films (and old TV shows it acquired through a merger) to local TV stations. Republic never returned to producing movies, and so its managers increasingly resembled the caretakers of a backwater cinematic museum.

It was in 1986 that Russell Goldsmith and Republic discovered each other. By then, Goldsmith had already spent months looking for just such a company.

Goldsmith, 41, does not evoke any stereotypes of the Hollywood mogul. With his slim, tailored look and cool demeanor, he resembles instead a Harvard-educated lawyer—which is what he is. He grew up in Los Angeles, but not, he says, in a way that exposed him much to the movie industry. His father, Bram Goldsmith, has gained a measure of fame as the Beverly Hills banker to such

Under the eagle: *Wayne in "The Sands of Iwo Jima" (1949); the recent TV series "Beauty and the Beast."*

stars as Frank Sinatra and Robert Redford, but when Russell was in school, Bram was still a real-estate developer. As Russell considered legal specialties, though, entertainment-related law began to look appealing.

A lawyer in that field, he says, could dip into all kinds of subjects: "You could negotiate contracts, you could set up a corporation, you had a sense of copyright law, you could give some help with tax planning." And, often, a lawyer for entertainers became "a significant business factor," so leaving the law to become an executive could seem "a very logical transition."

Goldsmith made that transition in 1983. He had represented a client in negotiations with the top executives of Lorimar, a TV production company. "In the end," Goldsmith says, the client "made a very, very good deal at Lorimar, and their comment to me was that they thought he'd been better represented than they were. Two weeks later, they asked me to come over"—not as a lawyer, but as chief operating officer.

His new job whetted Goldsmith's appetite for a major business role. As a lawyer, he says, "I was painting with five colors," but as COO, "I was painting with 50 colors. If I had an idea for a TV movie, I could go sell it; if I thought somebody was a good producer and should be at the company, I could hire them."

For many people in Goldsmith's position, the next step would have been into top management at one of the major studios; but he wanted to run his own company instead. He saw changes in the industry—in particular, the waning power of some of the independent studios that dominated TV series production in the '70s and early '80s—that he thought would open opportunities for a nimble new independent producer.

He wanted more than a production company, though; he wanted a library of films to go with it. He was sure that the value of such libraries was going to rise. "My thought was," he says, "that if I could find an underutilized, asset-rich entertainment company that had some kind of a skeleton of distribution, we could create the production end and build on that base."

With no such company in sight, he left Lorimar (where he was making close to $500,000 a year) to go look for one. He formed a limited partnership, the Paragon Group, to provide him with the money he would need when he finally found the right company.

Goldsmith looked at "20 to 30" companies; then "I became aware of Republic, and it really fit what I was trying to do." As it turned out, Republic's principal shareholders had grown restless themselves, and they welcomed a takeover.

On his own and through the Paragon Group, Goldsmith owns about half of the voting shares in Republic, a public company. He thus has every incentive to move both aggressively and prudently—and he has done exactly that.

Republic returned to film production in 1987, but for TV, not theaters. It has since produced about 150 hours for TV—one series ("Beauty and the Beast," for CBS), and about a dozen TV movies and miniseries, including the widely acclaimed "Son of the Morning Star" and "Separate But Equal," both seen this year on ABC. Republic is shar-

ing the cost of developing new series with United Artists Entertainment, a movie-theater and cable-TV company.

Republic has mined its library with a new vigor, assembling its old movies (some colorized) in attractive new packages for TV syndication. Its old and new films work together: As the made-for-TV movies and miniseries enter syndication, they help draw attention to the older films; and the distribution system set up to sell the older films makes it easier to find buyers for the new ones.

In home video, too, Republic mixes the old and the new in a way that forecloses its being typecast as a peddler of old films. Since 1987 it has bought the video rights to around 40 new low-budget features (typically films that never had a theatrical release) and sold them as high-priced rental titles, while offering its vintage films at prices that are tailored to the rapidly growing market of those building home video collections.

Just as important as what Goldsmith has done is what he has not done—namely, he has not let himself be lured into the costly trap that has snared other independent producers in recent years. The glamour of big-budget movies apparently so mesmerized some producers that they jettisoned all business judgment when they decided to make them.

So far, Goldsmith has moved surefootedly through this dangerous terrain. Last summer, for instance, Republic turned to feature production—but it will make only a handful of theatrical features each year, all with budgets of less than $3 million. With production costs that low, says Steven P. Beeks, 34, who as executive vice president is Republic's No. 2 man, "we can regularly double our money" through home-video sales and Republic's foreign distribution network, even if a film doesn't seem strong enough to warrant showing it in U.S. theaters.

> There is "a grown-up quality to being able to build a company on a set of principles that I'm comfortable with."
>
> —Russell Goldsmith

If a film turns out well enough that it seems to merit a full-scale theatrical release, Beeks says, the company will not risk the $5 million in prints and advertising needed for general distribution. Instead, Republic will spend a few hundred thousand dollars to test the market in a few cities. Neither will Republic go to the considerable expense of setting up its own domestic distribution system; instead, it will pay an established distributor to move its films around the country.

Goldsmith's strategy has paid off in a string of profitable years, even while many other small, independent producers were plunging into the red or even going out of business; but Republic has not yet scored any dazzling successes. Last year its net income was only $727,000 on revenues of more than $57 million. Republic's film library will bring in more money as the old, pre-Goldsmith contracts with TV stations expire; beyond that, Goldsmith must hope that his investment in Republic's future—in the development of yet-unsold TV comedy series, for instance—will lead to larger profits.

For the moment, Goldsmith takes satisfaction from knowing that he has revived an all-but-dead company and remade it in his own image. There is, he says, "a grown-up quality to being able to build a company on a set of principles that I'm comfortable with, as opposed to going into somebody else's culture and having to adapt." NB

Family Business

Turning aside misunderstandings and criticisms; summer jobs with longer goals; siblings with separate purposes.

COMMENTARY

Three Views In Small Packages

By Sharon Nelton

Snippets of useful information and inspiration turn up now and then in my travels around the country and in the daily barrage of mail and telephone calls. Here are some worth passing along:

■ Business plans are more than tools for getting loans at the bank. In a family firm, they make everybody accountable and spark communication among family members, according to Sam H. Lane, president of LBF & Associates, a Fort Worth management-consulting firm.

PHOTO: AMANDA BALDRIDGE

Inheritors of family firms are often viewed as getting something they didn't earn.
—Sharon Nelton

Lane says that by stating goals, naming those who are to accomplish them, and establishing deadlines, a strategic business plan—on paper—gives family members objective criteria for evaluating one another's performance. "It shifts discussion from 'I thought you said . . .' to 'Here's what we said we were going to do,'" he explains.

A written plan, Lane says, moves family members' attention away from emotional issues they may not be ready to handle and focuses their concentration on goals that they can rally around, such as, "Let's make the business better so we can make more money."

It also can serve as an instrument of communication—and education—when it is provided to family shareholders who do not work in the business. Sometimes such shareholders—because they don't understand the business and don't know why they're not getting a greater return on investment—become impatient with the family business's managers. A well-crafted plan, says Lane, can help them understand the business better and can increase the credibility of the family members who manage it.

■ As we've said before, inheritors of family businesses are often looked upon as people who got something they didn't earn. The image, says Chicago psychologist Kenneth Kaye, is one of "a lucky, probably undeserving heir." But he says that such an image can be turned around if the successor actually buys the family business from parents or other relatives.

"Psychologically, the most important advantage of selling rather than handing over the business may be that it makes choosing a successor a process of self-selection," says Kaye. "Which candidates are willing to risk their own capital, or assume debt? Are they able to impress lenders or outside investors with their competence?"

It may be hard to do—there may be tax problems to work out, for example. But Kaye urges taking the trouble. When offspring buy the business, he says, it suggests determination, commitment, the development of a business plan, and fair compensation to the rest of the family.

■ And the final words are from Earl G. Graves, family-business owner and publisher of *Black Enterprise* magazine, on its 20th anniversary: "When I shut my eyes, I can still see that first magazine rolling off the presses and relive the emotions I felt. I was anxious about whether my 'paper child' was going to survive its birth and live a long and healthy life and, at the same time, so very proud to have my real children witness such an historic moment for our family and, yes, this country."

PLANNING

Summer Jobs For Your Kids

By Craig E. Aronoff and John L. Ward

There are lots of good reasons to hire your children for summer jobs: to get them up in the morning and give them a chance to be productive; to provide them with a well-earned allowance that's tax-deductible to your business; to fill an important business need; or to interest them in a future with the family business.

But such an action, like most family-business decisions, requires extra care because it affects both the family and the business.

For most youngsters, the experience is positive. The son of the owner of a direct-mail firm in Wisconsin states:

"Working summers in our business was great. I learned a lot about the business, but mostly I had a chance to earn the respect of the employees in the warehouse. I showed them I could work as hard as anyone on a hot day. I showed them I respected their jobs. And, after a while, they trusted me enough to tell me some great stories on how management sometimes didn't listen enough to the employees."

There can be some unexpected consequences as well. Here was the experience of a daughter in her family's trade-magazine publishing firm:

"When I graduated from high school, I spent a few weeks at the magazine before leaving for a long family vacation. I was thrown into some copy editing where I had no confidence. When I left, the manager of my department told me I would never be a good journalist. That made me angry, and in college I worked for the school newspaper and did everything from layout to covering football games to prove him wrong!"

Surely the manager in the second example was unhappy at having to put up with the boss's daughter for such a brief time when little could be accomplished. Perhaps that was at the root of the inappropriate criticism of the daughter's ability. Or maybe the daughter, with her mind on the upcoming vacation and return to college, didn't really take the job

seriously. Fortunately, the supervisor's remark was taken as a challenge, making the daughter determined to prove herself.

Summer jobs can have an impact on the future expectations and effectiveness of your children, so it's important to pay close attention to the basics:

■ Put the kids in real jobs that need to be done and that they have the maturity and ability to handle. Avoid "observer" jobs and jobs that just fill time.

■ Pay them what the job is worth—no more.

■ Warn their managers that your kids are going to be working for the summer, and insist that they be managed like anyone else.

■ Let the children get to work on their own so they are neither compromised by being seen riding to work with the parent-boss nor tied to your commuting schedule.

ILLUSTRATION: DAVID CHEN

■ Don't cross-examine them about other people in the company; instead, show trust for your employees.

In these common-sense ways, you will show respect for work, for money, for your children, for the business, and for the people who work there.

Conversely, the kids must understand their responsibilities and the potential consequences of their behavior. Through excellent attendance, hard work, maintaining others' trust, and giving extra effort, they will earn the respect and confidence of the organization.

A summer job can open a youngster's eyes to the realities of being the boss's offspring. Your child likely will become aware that everybody is talking about him and his capacity for future leadership. It may seem unfair to him, but he will learn that that's the way it is.

One might believe that being in a fishbowl and being judged by everyone might discourage a young person's interest in a future in the family's business. Not so. Our experience leaves little doubt that involving your children in meaningful part-time or summer work increases the odds that they will have a more positive attitude toward a career in your company.

Summer jobs give youngsters a chance to prove ability and willingness to handle hard work. Here are some other considerations related to summer work for your children:

■ Some families insist that their children do something entrepreneurial, on their own, for at least one summer—such as develop their own lawn service.

■ Others feel that children should have some retail experience, to learn how to deal with the public and develop some selling skills.

■ Many families require that their offspring find jobs elsewhere for at least one summer during college. This "rule" may anticipate a family requirement that children acquire experience in another business for three to five years before entry into the family's business.

■ Similarly, some families maintain that the summer job should be in someone else's family firm. Then, besides getting outside experience, the young person sees how other employees perceive family owners.

■ One family we know encourages its children to work elsewhere but for an entrepreneur. This gives kids the chance to observe entrepreneurial thinking and action and to understand how important entrepreneurship will be to the future of the family's own firm.

■ Sometimes families look for projects for young people to implement. Examples include writing the family's history or the business's history, researching competitors, or studying charitable family foundations.

Whatever your approach to summer work for your children, it's a decision that can benefit from care and close reflection. Like so many decisions for a family in business, the real value comes from how you make the choice and why you believe as you do. Each decision powerfully communicates to members of your family and business important values for future success.

PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta Professor of Private Enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Mark Your Calendar

May 4, New York

"Getting Out of the Family Business," sponsored by New York University, examines issues of exiting a family firm. NYU also hosts a May 20 seminar on "Siblings in the Family Business." Contact LaVaun Eustice, Director, Family Enterprise Project, New York University, 48 Cooper Square, Room 108, New York, N.Y. 10003; (212) 998-7218.

May 13-18, Utah

A "Career Development Wilderness Program" combines activities in mountain and desert country with a personal-development program for current and future leaders of family firms. Contact Roger Peay of Dyer, Peay & Associates, 2696 N. University Ave., Suite 290, Provo, Utah 84604; (801) 375-0751.

May 20-22, Los Angeles

"Success Through Generations" looks at issues ranging from building trust among family members to competing globally. Cincinnati Reds owner Marge Schott is among the speakers. Call or write The Conference Board, Inc., P.O. Box 4026, Church Street Station, New York, N.Y. 10261-4026; (212) 339-0290.

May 30-31, Chicago

"Managing the Family Business in Troubled Times," sponsored by the National Family Business Council, in Chicago, covers succession, growth, and family harmony. Call Lynn McBlaine at (708) 295-1040. To be repeated June 6-7 in New York and June 13-14 in San Francisco.

June 12-14, Cleveland

"Managing Succession Without Conflict," a seminar led by nationally known family-business consultant Léon A. Danco. Contact the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

CASE STUDY

Shareholders At The Crossroads

Bob Reardon is fed up with his seven brothers and sisters. Their business had accumulated cash for an acquisition that Bob believed could "make" the company, but his siblings voted dividends for themselves instead.

Reardon Supply is a $100-million-a-year manufacturer owned equally by the Reardon siblings. President since his dad retired nine years ago, Bob, 49, has done a superlative job, increasing revenues sevenfold, organizing an outside board of directors, and installing strategic planning company wide.

While Reardon Supply is very efficient, has no debt, and is very liquid, its growth rate is slowing. Its competition (no longer local companies but national and international conglomerates) is squeezing margins, and more of its customers are going overseas. Running at capacity, it needs extensive capital expenditures to stay competitive.

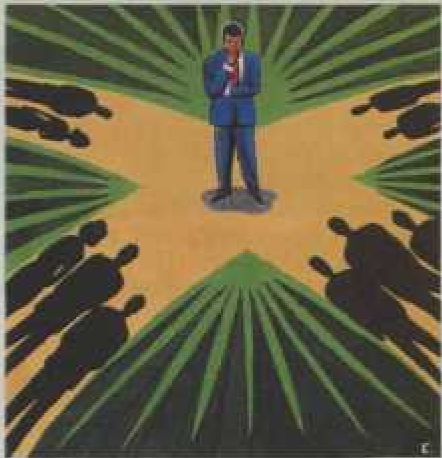

ILLUSTRATION: DAVID CHEN

All of Bob's siblings are settled in careers and lives outside Reardon Supply. Lately, some have become concerned about their general lack of liquidity and diversification, and have expressed an interest in cashing out. Others seem to resent Bob's salary, although they're very glad to have "one of their own" in charge.

In particular, Bob's older sister, Nancy, believes he is overpaid. Her husband, Phil, is the president of a public company. Although Phil's company dwarfs Reardon, Reardon is more profitable, and Bob earns more than Phil.

A family council meeting is coming up soon. Once again, Bob is faced with siblings who don't want to hear that Reardon Supply's world is changing. He knows he has to do something, but what?

PHOTO: ©ALAN DOROW

Separate The Issues

Dirk R. Dreux IV, vice president and director of Private Business Advisory Services at U.S. Trust Company of New York, New York City:

For the Reardons, the line of equity succession has diverged from the line of management succession. Bob's siblings own enough shares to control the company, but they don't have the experience or knowledge to run it. Bob runs the company very well, but he owns only a minority interest. A complex standoff is evolving that could jeopardize the business's future as well as the peace and goodwill in the family.

The Reardons' situation illustrates the tension that develops as a family starts to outgrow a business, and disagreement naturally evolves over what to do with the primary source and repository of the family's common income and wealth. Managing shareholders want to grow the business. Passive shareholders usually want to control their own wealth themselves. This competition for control, liquidity, and capital could escalate into a more antagonistic quarrel over personal competence, autonomy, and entitlement.

The board, in its responsibility to the shareholders, must act to protect the company. The board is not responsible for mediating shareholder differences; however, it might suggest that the topic of hiring a mediator be brought up at the next family council meeting.

Since some shareholders want to cash out, the board must ensure that high-quality financial information is available about the business's value, its strategic position, and its financial alternatives. To conduct such a review, the board should hire a qualified, impartial third party—that is, a financial adviser without any economic interest in the business or in the outcome of the analysis.

Once business and shareholder issues are separated, a plan of recapitalization can usually be devised to reconcile disparate shareholder interests. The adviser's findings and recommendations should be reviewed by the board for completeness and then presented to the family council.

PHOTO: ©LAURA SIKES

Set A Strong Agenda

Phillip Sidwell, a partner in the Atlanta-based Family Business Institute and an industrial psychologist who specializes in family-owned businesses:

Bob Reardon is on a frequently seen, predictable collision course with his brothers and sisters. At risk is the whole future of this business.

If Bob is to continue to move the company forward, he must first deal with the emotional aspects of what is going on between himself and his siblings. He can begin by seeing to it that the following actions are taken at the next family council:

- An overview of the economics facing the company in the immediate future and the longer term is presented.
- Outside board members review the company's strategic plan, including the needs of the business that must be met to provide for increase in the value of the stock and to assure continuance of dividends. They also present the rationale for the decisions that have been made.
- An outside compensation expert makes a presentation comparing the top positions of Reardon Supply with like positions in similar firms.
- Family members discuss alternative solutions to funding the company's needs and to allowing those who wish to sell out to do so.
- The second-generation couples outline their goals for themselves, their own families, and the company. This makes explicit to all what is important to each couple.
- Family members develop a plan for how they will relate, communicate, and deal with disagreement.

They should identify existing positives that can be amplified and built upon to foster family solidarity.

It is advisable to bring in an objective outside facilitator to keep the discussions on track and to manage confrontation and disagreement.

Unless these issues are dealt with, the situation will likely degenerate—perhaps at an accelerating pace. It is in everyone's best interest to get resolution now.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute.

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Pioneering work in polymers recently earned Du Pont the top U.S. honor for technology.

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DU PONT

Better Things for Better Living.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

FINE ARTS

ILLUSTRATIONS: DAVE ALLEN

A Talent To Draw On

I need information on how to break into cartooning on a free-lance basis.
M.W., Maspeth, N.Y.

Dave Allen, a free-lance cartoonist for 13 years and the illustrator for our Direct Line feature each month, says that the most challenging aspect of free-lancing is that "you are a salesperson first and an illustrator second."

He suggests that you begin by reading the book *Getting Started as a Free-lance Illustrator or Designer*, by Michael Fleishman. "The book gives a well-rounded picture of the various methods of seeking free-lance assignments," says Allen.

Check your local bookstore for a copy, or send $16.95 plus $3 for postage to the Book Order Department at North Light Books, 1507 Dana Ave., Cincinnati, Ohio 45207; (513) 531-2222. Major credit cards, checks, or money orders are accepted as payment.

Allen warns that there are no short-cuts to getting assignments. "The process takes perseverance—contacting art directors, making appointments with them, and showing them your work," he says. ■

RECREATION

Bowl Games

I am interested in opening a small bowling alley of up to 10 lanes. Any information on how to start would be helpful.
B.T., Kevil, Ky.
(Similar question from J.A.S., Placentia, Calif.)

Lance Elliott, executive director of the National Bowling Council, can give you general information about the industry and what to expect during start-up.

The council's members include equipment manufacturers, bowling associations, and owners of bowling centers. For more information, contact Elliott at the National Bowling Council, 1919 Pennsylvania Ave., N.W., Suite 504, Washington, D.C. 20006; (202) 659-9070.

Putting A Round

We want to start a miniature golf course in our city of 1,800. What companies would we contact for miniature-golf information, and exactly how do we go about this venture?
N.L.W., Watford City, N.D.
(Similar question from J.M., Stow, Ohio)

Contact Kevin Ream, chairman of the Miniature Golf Association of America. Ream says there are 2,000 miniature golf courses in the U.S. His organization offers information to individuals and businesses interested or involved in the miniature-golf industry.

The association's quarterly newsletter, *Putting Around*, covers how to get into the miniature-golf business and lists companies that build courses, supply equipment, and offer insurance. It also discusses advertising, promotion, and maintenance of miniature golf courses.

You may call or write Ream at the Miniature Golf Association of America, P.O. Box 10287, State College, Pa. 16805; (814) 238-4653. ■

EARTH WORKS

Sprouting Grounds

I want to start a small business raising bean sprouts. I need information on U.S. Food and Drug Administration (FDA) regulations, where to get supplies, and on how to market the product.
I.J.B., West Hartford, Conn.

Growing bean sprouts is "true entrepreneurship" in produce production, says Ken Young, executive director of the International Sprout Growers Association. "There is a low buy-in cost, and there is a direct relationship between the producer and the customer."

Sprout growing includes bean sprouts and green leaf sprouts, such as alfalfa, Young says, and sprout growers are subject to FDA and Department of Agriculture regulations.

For general information on the industry and the regulations, contact Young at the International Sprout Growers Association, 7300 Lincolnshire Drive, Suite 200, Sacramento, Calif. 95823; (916) 399-9846. For information on equipment and specifics on start-up, Young recommends two sources: Bryan Herr, president of Sunsprout Systems, in Houston, (713) 468-2900; and Earl Houserman, president of Sunshine Systems, in Boulder, Colo.; (303) 786-8400.

Grounds Work

Where can I go for help in starting a landscaping business?
T.H.P., Watertown, Mass.

The Associated Landscape Contractors of America publishes various books on

landscaping. Two that you could find helpful are *Starting a Business in Your Own State*, which covers the basics of starting a business, and *Guide to Developing a Landscaping Business*, which contains an overview of landscaping and discusses the business skills necessary to run a successful enterprise. *Starting a Business* costs $45, and the guide costs $62.50. Add 5 percent to the price of each for postage and handling. A complete publications list is also available from the association.

To order or for more information, write or call the Associated Landscape Contractors of America at 405 North Washington St., Suite 104, Falls Church, Va. 22046; (703) 241-4004.

From The Ground Down

I am very interested in starting a worm-farm business. Could you give me any information on getting under way?
S.B., West Warwick, R.I.

Carolina Biological Supply, based in Burlington, N.C., stocks everything you need to get your farm going. A worm farm (order No. L397A) costs $13.60 and contains 50 red worms, worm bedding, food, a container, and instructions. Earthworms are also available (No. L397B). For a larger "crop," try the worm ranch for $20.41, which includes the same items as the farm but with 100 worms (No. L398A for red worms or No. L398B for earthworms). For information, or to order the firm's 1,300-page, $16.95 catalog on worm-farming supplies and starter kits, call (800) 334-5551. ■

INTERNATIONAL TRADE

Destination: U.S.A.

I have a small leather-goods manufacturing operation in India (men's wallets, belts, checkbook covers, handbags, etc.). I want to export my products to the U.S. Where should I start?
K.S., Cupertino, Calif.

Because of the complexities and the various state and federal regulations involved in importing, you should consult agencies and experienced professionals for help before you begin. Start with the American Association of Exporters and Importers. It can refer you to U.S. importers and help you contact a customhouse broker—the first steps toward successful importing—says the organization's president, Eugene Milosh.

Contact Milosh at the American Association of Exporters and Importers, 11 West 42nd St., 30th Floor, New York, N.Y. 10036; (212) 944-2230. ■

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have updated and enlarged the booklet containing the most-asked questions. *The Small Business Resource Guide* is now available for $5.95 a copy (plus $1 for handling). To order the booklet, send a check or money order to the Circulation Department at the address above. ■

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

TAXES

Rental Advantages For Hard-To-Sell Houses

With the real-estate market in the doldrums, a lot of homeowners who want to move, or have to move, are caught in the crunch of having to pay two mortgages while their original property just sits there, month after month, unsold.

"You may be able to pick up some significant tax benefits by renting your original home for a year or so until the market picks up again," says Paul Moe, a certified public accountant with McGladrey and Pullen, a Minneapolis accounting firm. You are entitled to all the tax deductions awarded to landlords, including maintenance expenses, depreciation, utility costs, and any advertising costs you incur.

The trick is to get enough rent to cover your mortgage, but this isn't always possible. Yet even if your property produces a loss, Moe says, "you still might come out ahead."

This kind of loss, he explains, "is considered passive by the Internal Revenue Service." Generally, this means a rental loss will only be allowed to offset taxable income generated from your "passive" activities, such as other rental income and limited partnerships. "However, there's a special exception to the general passive-loss rule for rental properties," Moe says, "which allows you to deduct up to $25,000 of rental losses without limitation, provided your adjusted gross income is less than $100,000." The $25,000 deduction is phased out as your income exceeds $100,000, and it disappears at $150,000.

PHOTO: T. MICHAEL KEZA

Can't sell *your home in a slow market? Think about renting it.*

Kids, Summer Jobs, And Uncle Sam

With vacation time just around the corner, teens and tykes will be looking for summer jobs. Will the money they earn be taxable? And if so, by how much?

"It depends on how much your son or daughter earns from the job and how much income he or she might be getting from savings or investments," says Janice M. Johnson, director of tax policy for the New York State Society of CPAs.

If, for example, your young worker doesn't earn more than the $3,250 standard deduction during the year and has no unearned income, Johnson says, there is no need to file a return and pay federal income tax. Generally, however, employers will have to withhold money for the FICA (Social Security) tax.

If the working child won't owe any taxes, you can avoid the employer's withholding by filing a W-4 exemption claim. This means more take-home pay.

Things start to get complicated, however, when a young worker is also getting unearned income from a savings account, money-market fund, stocks, or bonds. If the total—earned (from work) and unearned—is more than $500, a tax payment will be due. For example, let's say your son or daughter earns $1,000 from a summer job and gets $300 from a certificate of deposit. He or she would then have to file a tax return and pay federal income tax.

Parents who operate a small, unincorporated business can hire their children, pay them a legitimate wage, and get a business deduction. Generally, no federal income tax withholding is required, and, until your child reaches 18, no withholding for Social Security is necessary. ■

BORROWING

For Home-Equity Loans, It's A Buyer's Market

In parts of the country where lenders face plenty of competition, banks and savings institutions are offering home-equity-loan "sales."

"It's a buyer's market"—that is, a borrower's market—says Steve Skalet, a real-estate attorney in Washington, D.C.

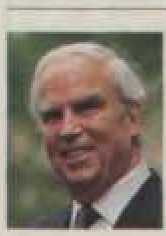
"Some lenders are offering home-equity lines of credit with no closing costs, no fees whatsoever," to qualified borrowers, he says. Other lenders are countering with lower rates, such as one point above prime (the best rate given to big corporate borrowers) plus rebates on closing costs, depending on how much you borrow during the year.

"With rates at their lowest point in several years," Skalet says, "some homeowners are refinancing their first mortgage and getting a special deal on being able to combine a home-equity loan in the same package." Here's how it works:

Let's say you originally purchased your home for $100,000 and it is now appraised at $200,000. Your mortgage has been paid down to $75,000. Lenders will usually let you borrow up to 80 percent of the current appraised value of the home. In this case, it would be $160,000 (80 percent of $200,000).

Until recently, the Internal Revenue Service said that when you refinanced a mortgage on a home that had appreciated in value, you could only get a tax deduction on interest paid for the amount of the existing loan. In this case, the limit would be $75,000.

If you wanted to refinance up to the full $160,000 allowed by the lender, $85,000 of the $160,000 would not qualify



Peter Weaver is a Washington-based columnist on personal finance.

for an interest-based tax deduction.

To get around this, homeowners who wanted the full tax deduction had to refinance their existing mortgage at the lower rate and then go out and get the remainder financed with a separate home-equity loan.

The home-equity loans, in these transactions, incurred additional closing costs, were at higher, floating rates, and didn't have the optimum, 30-year-amortization terms enjoyed by first-mortgage holders.

"So the IRS relented," Skalet says, "and has now ruled that you can combine refinancing your first mortgage with a home-equity loan in the same package."

The whole thing looks like a first mortgage and acts like a first mortgage, but the IRS says you can call one segment a home-equity loan in order to qualify for the tax deduction without all the fuss and cost of getting a separate home-equity loan.

There is a limit on how much of your home-equity portion can qualify for the interest deduction. The IRS says it can't exceed $100,000, except in cases where it's used to pay for home improvements.

Homeowners who don't need to borrow the full amount available can stick with the first mortgage they have, or refinance it at a lower rate, and get a home-equity line of credit on the side.

Having a line of credit, as opposed to getting a home-equity loan through refinancing the first mortgage, gives you the advantage of only paying interest on what you borrow, when you borrow it.

According to Larry Magnesen, national product manager for Citibank, "People are using their home-equity money for home improvements, college expenses, and paying off high-interest credit-card debt, where there's no longer any tax deduction." ■

TIPPING

Figuring The Percentages

How much should you tip a bellhop, waiter, bartender, or doorman?

It's all down in fine print on a piece of plastic the size of a credit card and put out by Ken Abel, president of Abelexpress, a company that designs products for gift shops and consumer catalogs.

"Top-notch baby sitters should be tipped 15 percent," says Abel, "and more if they have to work after midnight." Bartenders, he says, should be tipped a minimum of 25 cents on up to 10 percent of the bill.

Abel's card also covers taxi drivers, shoe shiners, lunch-counter servers, parking attendants, manicurists, and others.

Abel will send you three cards for $2 postpaid from: Abelexpress, 230-N E. Main St., Carnegie, Pa. 15106. ■

INSURANCE

PHOTO: ©ANTHONY EDGEWORTH—THE STOCK MARKET

What kind of life insurance *makes sense for a married couple? A "first-to-die" policy may sound appealing, but there could be problems with it.*

Choosing The Right Coverage: First To Die, Second To Die

Many working couples buy separate life-insurance policies against the possibility that one of them might die, leaving the survivor to raise children and pay big bills with a drastically reduced family income.

Some couples, however, explore an alternative called "first-to-die" coverage, which is offered as less-expensive protection than the two-policy approach. But not all insurance experts agree that it's the best selection.

A proponent, Ted S. Bernstein, president of Assured Enterprises, Ltd., a Chicago-based management consulting firm that also sells insurance, says that premiums on a "first-to-die" policy are 25 percent less than the total premiums for separate policies on both spouses because, although both are insured, the company is liable for only one death benefit.

But Barbara A. Warner, a financial planner with Windsor Advisors Inc., in Bethesda, Md., says that the first-to-die policies haven't sold well because they have turned out to be very expensive. Insurers found that one partner was usually older, in poorer health, or both, she says, so premiums were set high to cover the increased risk.

"Most couples are probably still better off getting separate policies to cover each life," Warner says, explaining that "you can mix and match more expensive whole life with less expensive term insurance to work out a plan that covers the couples' changing financial needs over the years."

Whole-life insurance combines death benefits with a savings program. A term-life policy provides death benefits only.

Comparison shopping is worthwhile, says Raymond H. Moran, a partner in the Payton-Moran Co., an insurance agency based in Memphis, Tenn., and an adviser to the National Association of Life Underwriters. "Run the figures between first-to-die insurance and two policies that combine term and whole-life insurance," Moran says.

Noting that universal life policies are used in first-to-die insurance, Moran says a policy of that type "can work as long as you put enough money into it at the beginning."

Universal life policies are designed to offer the holder flexibility in determining the amount and the timing of payment of premiums and in changing the amount of coverage.

Also available is "second-to-die" coverage. Moran says that this type of policy "costs a lot less than first-to-die because there is a much lower risk for the company."

The second-to-die concept is designed primarily for one special need: estate planning.

"It's geared to provide cash to pay estate taxes when the second partner dies," Moran says.

Under this type of coverage, the first to die can leave an estate to his or her spouse under the unlimited marital deduction; under that arrangement, there is no tax. But when the second person dies, the estate could face a big tax bite—from 37 to 50 percent of everything over $600,000.

"Second-to-die insurance," Moran says, "takes care of this problem." NB

For Your Tax File

What you need to know to keep taxes from overtaxing you.

By Albert B. Ellentuck

RECORD KEEPING

Preserving The Evidence

Where do you keep your tax records? In your office? In your home? In your basement?

Wherever you keep them, if you're like most of us, you are fast running out of space. And now you'll have to make room for your 1990 return, along with all the bills and other supporting records relating to that return.

Can't you simply throw away your old tax records?

No. At least that much is clear. Your copy of your return is evidence that you did file it; the federal government has been known to lose returns.

When it comes to the bills and other records backing up those returns, however, what you must keep is not so clear. Generally, you should keep your records supporting an item of income or deduction at least until expiration of the statute of limitations on tax assessments—that is, the period after which the Internal Revenue Service can no longer question a return.

This period generally is three years after the return is filed, but it can be extended to six years if the taxpayer has understated gross income on the return by 25 percent or more. If the return was fraudulent, however, or if no return was ever filed, the statute of limitations does not apply.

PHOTO: ©CHARLES FEIL—UNIPHOTO

Taxpayers *should be aware of retention periods for tax records.*

A useful rule of thumb is to save your records for at least six years. If you received an extension of time to file, the six-year period starts from the extended due date.

In some instances, though, there are exceptions to the six-year guideline. If you had an exceptionally large amount of deductions in one year, or if there is some other possible risk that the IRS could allege fraud, you should definitely keep those records forever. Also, if your records indicate no tax return was required in a particular year, keep those records too.

You also should keep records of real property and improvements to that property at least until the property is sold. Sometimes the records are needed long after the property is sold.

For example, a taxpayer who sells a principal residence at a gain may defer the tax on that gain if another principal residence is acquired within two years. These records should be kept as long as you own the replacement property and for six years after it is sold.

Net operating losses can be carried back three years and forward 15 years. Accordingly, it is important to retain all records until the losses are used up by offsetting them against income, or until the loss is expired. Again, hold on to those records for six years after that date. ■

DEDUCTIONS

Tax-Preparation Fees

The Tax Reform Act of 1986 limited the amount of itemized deductions that individual taxpayers can take on their personal income tax returns. Under the rules, the fees you pay your accountant for tax preparation can be deducted only to the extent that your total miscellaneous itemized deductions exceed 2 percent of your adjusted gross income. As a practical matter, since most people do not have that many itemized deductions, this effectively denies the deduction to most people.

Tax specialist Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

However, if you are a self-employed sole proprietor or receive rents, royalties, or partnership investment income, there may be a way to obtain a portion of that lost deduction.

When filing as a sole proprietor, you file a Schedule C for self-employment income; or you may file a Schedule E for rents, royalties, and partnerships; or possibly even a Schedule F for farm income. If your tax preparer itemizes the bill, attributing portions to each activity, each attributed portion should be deductible right on that schedule without being subject to the 2-percent floor. In other words, by properly allocating the preparer's fee, you can take a deduction for the portion that is allocated to your self-employment investment, for example, or your rental activities.

For Fun And Profit

James Bower of Lafayette, Ind., had both a commodity brokerage business and a real-estate rental firm, but his real love was basketball. He sponsored an amateur basketball team called the Hustlers, and he used the team sponsorship primarily as a way to advertise his businesses. Most of his clients were interested in the team, and he found this generated considerable goodwill. Before and after games, Bower met with clients or prospective clients to discuss business deals. The name of one of his firms was sewn in large letters on the team's T-shirts. The games also were covered by local newspapers and on radio and TV.

The Internal Revenue Service, however, said the costs of promoting the team were not deductible as "advertising" because they were not "ordinary and necessary." The U.S. Tax Court disagreed. Though there was an element of personal satisfaction in his ownership, the court said, Bower proved that the team generated substantial publicity at a modest cost and that his businesses benefited from the promotion. NB

Franchising

Women find independence and success in service-oriented franchised businesses.

By Meg Whittemore

Career Paths For Women

PHOTO: ©ALAN DOROW

Scrambles' creators: *Ilene Sitten, left, and her mother, Sylvia Ravitz.*

Women who have chosen to enter franchising—either as franchisors or franchisees—can take charge of their own destiny. Franchises can help franchisees expand their business experience, for example. And franchise ownership enables women to avoid colliding with the "glass ceiling" of undefined barriers to advancement that they might encounter in a large business. Women can also bring to franchising the same characteristics that they bring to business in general. (See the Cover Story, on Page 16.)

"I think franchising is a super career opportunity for women," says Carla Garbin, senior vice president of Little Professor Book Centers, Inc. "Women can become pro-active in their career growth rather than waiting for the promotion to come along," she says.

Based in Ann Arbor, Mich., Little Professor Book Centers has 145 franchised locations, and most of them are owned by couples. But that's changing, Garbin says. "We are selling [franchises] to single women who have substantial net worth and who have had some pretty strong corporate positions in the past. That is a new phenomenon for us."

Diana Gilbert, a former junior high school teacher, is one such franchisee. In 1983 she bought the Little Professor Book Center franchise in Oconomowoc, Wis., near Milwaukee, after managing the store for three years. Having the franchisor's support on matters such as site selection makes a big difference in the chances for success, she says.

Other franchisee services include store layout, computer support, marketing, direct mail, advertising, a network of regional managers, and help with the opening inventory. "With no industry background, a franchisee would have a tough time selecting from the 10,000 [book] titles out there," says Gilbert.

Opening a Little Professor Book Center costs at least $180,000, says Garbin. Franchisees pay a 3 percent monthly royalty and a 0.5 percent advertising fee based on gross sales. Systemwide sales were $62 million last year.

Scrambles, a franchised specialty retailer of custom children's furnishings and accessories, was founded by Sylvia Ravitz and her daughter Ilene Sitten. Scrambles appeals to upscale parents who treat their children to specialty furnishings and room treatments.

"Custom accessories is the niche for us," says Sitten, who is the creative director. "We provide a full range of custom-designed bedding, room decor, children's accessories, and gifts for the home, allowing the customer participation in how those items will eventually look." An average purchase at Scrambles is $75, she says; items start at $3, and a complete room treatment can cost $6,000. Sales last year for Scrambles' five franchises and two company-owned stores totaled $3 million.

Sitten and Ravitz 12 years ago started selling custom-designed gifts out of Sitten's home in Livingston, N.J. They rented counter space at a local nail salon for three years before opening their first Scrambles in Short Hills, N.J. They sold their first franchise in 1986. It costs $117,000 to $155,000 to open a Scrambles franchise. Sitten says they look for franchisees who exhibit "a young mentality, a driven spirit, a desire for success, and a wonderful attitude toward people."

Ravitz believes that her daughter's philosophy makes good business sense. "You have to be different and creative to make it in business nowadays," she says. "If you are ordinary, then nobody needs you." NB

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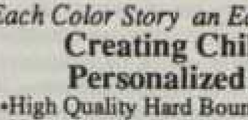

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1. Do you believe a tougher federal law is needed to discourage job discrimination?

1. Yes
2. No
3. Undecided

2. Do you believe intentional racial, religious, sexual, and/or ethnic job discrimination occurs in workplaces in your community?

1. Yes
2. No
3. Unsure

3. Should damages assessed to punish employers in job-discrimination cases be limited or unlimited?

1. Limited
2. Unlimited
3. Undecided

4. Should the burden of proving job discrimination or nondiscrimination be on the employee or the employer only, or should it be shared?

1. Employee
2. Employer
3. Shared

5. Should federal law require employers to achieve statistical balances between the available work force and their work forces?

1. Yes
2. No
3. Undecided

6. Are hiring and promotion quotas an acceptable outcome of federal policies aimed at fighting discrimination?

1. Yes
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A Tax Cut Within Reach

ILLUSTRATIONS: RICHARD GAGE

Recognizing the need to invigorate the economy, many members of Congress are seriously considering proposals to reduce Social Security payroll taxes.

According to the U.S. Chamber of Commerce, such a step would stimulate economic growth by lowering the cost of labor for employers and leaving more income in employees' paychecks.

Legislation introduced by Sen. Daniel Patrick Moynihan, D-N.Y., as S. 11 and by Rep. Frank J. Guarini, D-N.J., as H.R. 524 would gradually reduce the Social Security tax rate for both employers and employees from 6.2 percent to 5.2 percent by 1996.

However, this legislation would also raise the taxable wage base to $82,200 by 1996. This wage-base increase would result in large numbers of employees receiving only a very small tax cut, and so the economic stimulus would be substantially reduced.

Thus, the Chamber believes the Moynihan-Guarini bills (S. 11 and H.R. 524) should be amended to remove the taxable-wage-base provisions. Further, the Chamber will oppose any measure eliminating the wage-base cap or denying a payroll-tax cut to employers by restricting the cut to employees only.

The Chamber believes that even stronger medicine for the economy would combine a payroll-tax cut with a capital-gains tax rate cut.

Contact your representatives and senators, and urge support for a payroll-tax cut without an increase in the wage base. Urge that such a tax cut be passed, preferably along with a capital-gains tax cut.

Civil-Rights Bills Worth Backing

The debate over how to protect and strengthen civil rights in the workplace may have reached a turning point with the introduction of new legislation in Congress.

New bills backed by the Bush administration and introduced in the House and Senate, plus legislation introduced by Sen. Alan K. Simpson, R-Wyo., largely address the concerns business has had with legislation introduced last year and a bill (H.R.1) introduced earlier this year. The new bills also address the job-discrimination concerns of civil-rights activists.

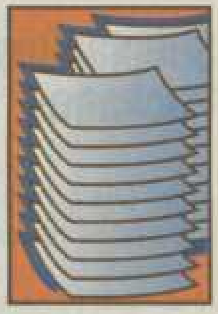
The administration's proposal and the Simpson bill would provide new monetary remedies for workplace harassment based on race, sex, religion, color, or national origin. Monetary remedies would be capped at $100,000 under the Simpson bill and $150,000 under the administration's bill. Certain decisions on the amount of damages awarded would be made by a judge.

In addition, these new measures would not force employers to resort to hiring and promotion quotas.

The administration's proposal was introduced in the Senate by Minority Leader Bob Dole, R-Kan., and in the House by Minority Leader Robert H. Michel, R-Ill. The bill numbers are S. 611 and H.R. 1375, respectively.

Contact your representative and senators. Urge support for the Dole-Michel legislation, S. 611/H.R. 1375, and the Simpson bill, S. 478. Urge opposition to H.R. 1 and any other measure that would lead to hiring quotas and encourage unfounded lawsuits against employers.

The Paperwork Deluge



A major clash is expected in Congress this year over reauthorization of the Paperwork Reduction Act.

The law was enacted in 1980 to minimize the federal paperwork required of business, which costs employers more than $100 billion annually.

Under the act, the administration's Office of Management and Budget reviews paperwork requirements proposed by federal agencies. If OMB determines that employers' costs in filling out the forms outweigh the benefits to the government, it has the authority to block the paperwork requests.

OMB says its authority has enabled it to block requirements since 1981 that would have added 600 million hours annually to the time employers spend on paperwork.

Last year, Congress was unable to agree on reauthorization.

In addition, the Supreme Court decided last year that the paperwork act gave OMB authority to review only rules requiring businesses and individuals to disclose information to the federal government. Regulations requiring disclosure to third parties were off limits for review, the court ruled.

The U.S. Chamber of Commerce believes strongly that the paperwork act should be reauthorized. It also believes the act should be amended to strengthen OMB's authority to block paperwork requirements, including information disclosure to third parties.

Contact your representative and senators. Urge them to support a strong and effective Paperwork Reduction Act to reduce costly, unnecessary paperwork burdens on business. NB

Editorials

Energy Security Requires Development Of Alaska's Arctic National Wildlife Refuge

In a cover story early last year, we warned that "growing demands and threatened supplies raise questions about the nation's ability to keep meeting its energy needs."

Subsequent events have sadly validated that statement. While the United States and its allies turned back aggression that threatened Middle East oil supplies, lasting stability in the area remains elusive.

PHOTO: ©MICHELE BURGESS—THE STOCK MARKET

Given that situation, does it make sense for the United States to abandon crude-oil reserves within its borders and to let its dependence on foreign producers keep growing?

The answer is obvious to most Americans. But the question is a highly controversial one in the debate over energy policy.

The center of this debate is the Arctic National Wildlife Refuge (ANWR) in northern Alaska, which covers 19 million acres in the North Slope area that now accounts for a quarter of U.S. oil production.

The impact of full development—land areas used for roads, pipelines, drilling pads, and other support structures—would be about 13,000 acres.

Nevertheless, environmental opposition has blocked legislation to open ANWR to exploration and development despite Energy Department evidence that development would not harm the environment.

Time is also becoming a factor. A major new study shows that in the absence of new large oil fields on the North Slope, the flow of crude through the Alaska pipeline will drop below cost-efficient levels, and the line will likely be shut down in 2009. Says Energy Secretary James D. Watkins: "If there is one message coming from this study, it is that delaying exploration or development on Alaska's North Slope may be tantamount to permanent shut-in of the entire region."

Given the many years of lead time needed between approval of exploration and first production, the time spans involved are not as long as they might appear.

ANWR must be developed, and Congress must begin that process now.

A Challenge To Japan

The president of the U.S. Chamber of Commerce has issued a friendly but pointed challenge to Japan: Recognize that the world is changing, and that you should change with it.

Richard L. Lesher, Chamber president, offered that perspective in Tokyo to an audience of Japanese business and government leaders who are in a strategic position to effect the sweeping changes that he recommended.

The most critical step, Lesher said, is for Japan to give U.S. businesses the same unrestricted access to Japanese markets that Japanese businesses have to U.S. markets.

"Of course," Lesher said, "full access would require major changes in the way you do business. Not just changes in laws and official government policies, but fundamental changes in the Japanese economic system, attitude, and lifestyle."

It would be in Japan's best interests to embark on that course, Lesher said, because Japanese barriers to American imports are receiving increasing scrutiny among American policy-makers.

During the Cold War, the Chamber president explained, collective-security concerns took precedence over matters of trade. But now, he said, "our government sees the world through an economic prism," and this "poses grave implications for Japan."

Lesher told his Japanese audience: "I know you share our values of political and economic freedom, and I am confident you will stand with us to promote and defend them throughout the world."

That sentiment offers an excellent starting point for assuring that the U.S.-Japan relationship, which has benefited both nations, continues and grows stronger. ■

Free-Spirited Enterprise

By Janet L. Willen

Spring Hang-Ups

It's not too late for spring cleaning. For starters, you can get those stacks of note paper off your desk. Just move them to your wall.

ILLUSTRATIONS: LILI ROBINS

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The **Family Medical Records Manager** is designed for employees, and the senior version is for Medicare-eligible retirees. Both are expandable paper file cases with labeled tab sections to hold health and medical information.

Ellini will customize the files for your business's needs. The company says the file can save money for your business and your employees by helping catalog medical expenses and reimbursements.

Dining and Whining

Mark Berey, president of **Sutton Place Gourmet**, a chain of specialty-food markets based in Rockville, Md., wants to hear from customers—while they're shopping. He has put a mobile phone in

each of three Washington-area stores so that customers can leave messages about what they like, don't like, and want while their ideas are fresh in their minds. Berey, who listens to the tapes, doesn't mind that the suggestion phone has been dubbed a "whine line," he says. "Even a whiner can help you be a winner."

In the phone line's first two months, Berey has heard compliments, requests for new products, and only one whine so far—that the new oatmeal raisin cookie isn't as good as the old one. Berey is chewing on it.

Mother Knows Best

If your mother tells you, "Don't wear white shoes before Memorial Day or after Labor Day," you should listen to her.

Mother is right, says Jan Yager, author of *Business Protocol: How To Survive and Succeed in Business* (John Wiley & Sons). Yager's book offers useful business advice on etiquette, communication, appearance, and work relationships as well as on leisure time.

Some of it you probably already know, such as the rule that you don't wear a tie with a food stain "unless it blends in with a dark paisley pattern."

Hard Cases

So your tie is right and your shoes are right, but does your briefcase measure up?

Chicago Trunk and Leather Works says the harder you work, the worse your briefcase looks. The store rents top-of-the-line briefcases for people who want to look like the chairman of the board at the meeting of their life.

Rental costs vary with the case you choose. A handcrafted, leather-lined Hartmann case that sells for $1,100 rents for $100 a day, while the flashier, sleeker, $450 molded aluminum Zero Haliburton is $45 a day.

Chicago Trunk says business people want good-looking briefcases even if all that's in them is a sandwich and a banana.

Update

The computerized golf bag carrier made by **Lectronic Kaddy** and mentioned in this column in March costs $845.


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